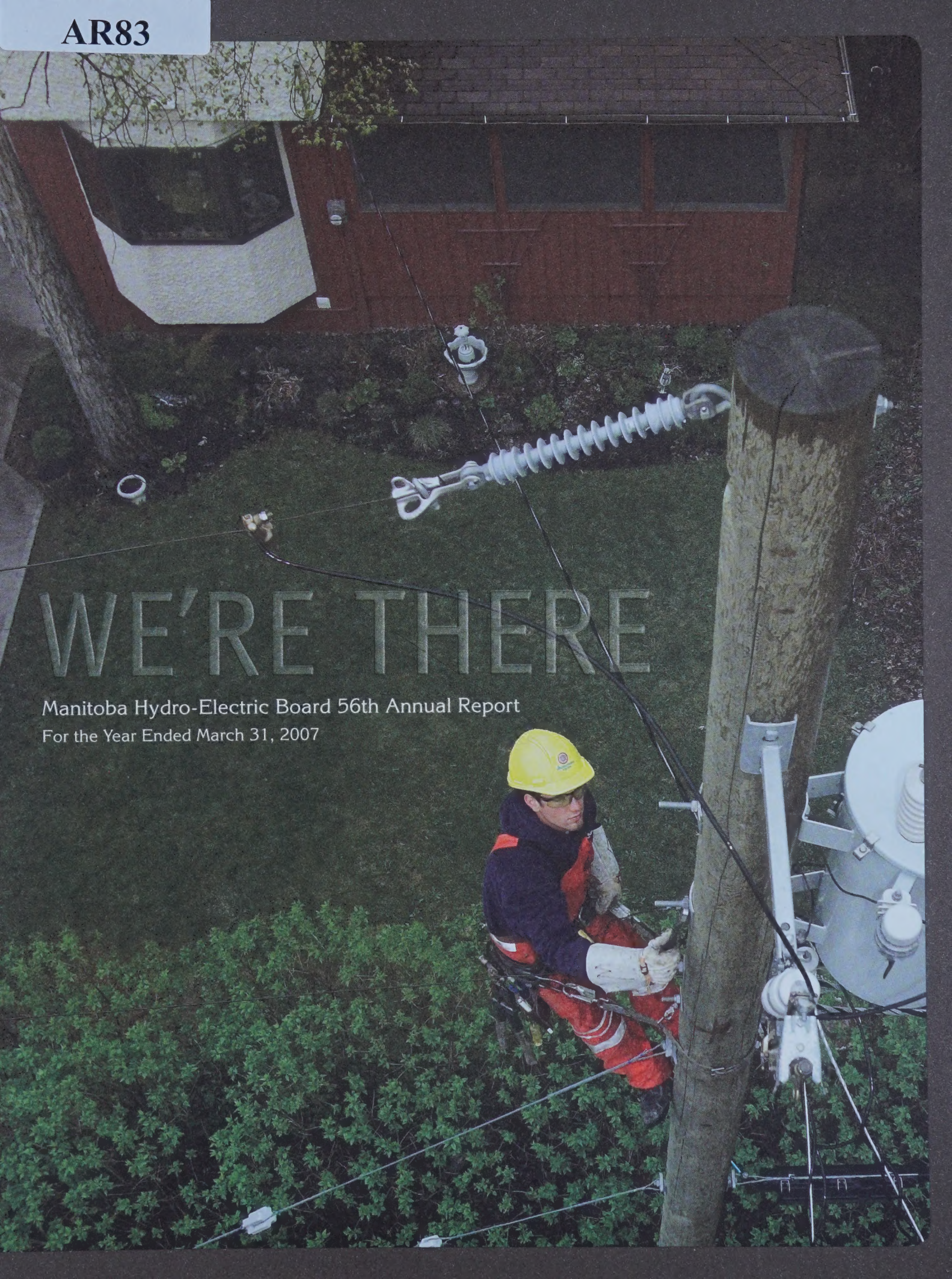


WE'RE THERE

Manitoba Hydro-Electric Board 56th Annual Report
For the Year Ended March 31, 2007





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WE'RE THERE

LETTER OF TRANSMITTAL

July 31, 2007

Honourable Greg Selinger
Minister Charged with the Administration of The Manitoba Hydro Act
Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister:

I have the honour of presenting the 56th Annual Report of The Manitoba Hydro-Electric Board, together with the financial statements, for the fiscal year ended March 31, 2007.

Respectfully submitted,



Victor H. Schroeder, QC
Chairman, The Manitoba Hydro-Electric Board

The words "We're There" from this year's Know Your Hydro public awareness campaign is much more than a slogan. It speaks to providing electricity and water to every corner of the province throughout the year. The words "We're There" is backed with hundreds of projects and services that we provide. Such as helping to build roads, bridges, and more. Such as helping to build roads, bridges, and more.

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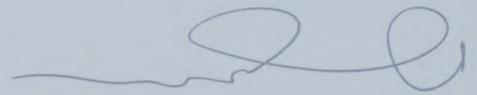
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WE'RE THERE

The phrase *We're There* from this year's *Know Your Hydro* public awareness campaign is much more than a slogan. In addition to providing electricity and natural gas service to customers throughout the province, Manitoba Hydro is involved with hundreds of other projects behind the scenes. Such as helping to protect birds-of-prey like hawks, eagles, and ospreys.

These birds usually seek the highest point to build their nests – unfortunately, that's occasionally an energized hydro pole or substation. Wherever possible, Manitoba Hydro will install a higher structure with a nesting platform to encourage these birds to "move up" to a safer nesting alternative.

That's just one of the many interesting stories about Manitoba Hydro that our customers may not be aware of. For even more examples, see this annual report or visit our website and get to *Know Your Hydro*.

Newspaper ad from the *Know Your Hydro* public awareness campaign.





A morning mist on the Winnipeg River lifts to reveal Manitoba Hydro's Seven Sisters Generating Station. The station celebrated its 75th year of operation in 2006.

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Manitoba Hydro's largest, and most recent power plant – the 1 340-megawatt Limestone Generating Station on the Nelson River.

Corporate Profile

Manitoba Hydro is a provincial Crown Corporation, providing electricity to 516 861 customers throughout the province and natural gas service to 259 569 customers in various communities. The Corporation also exports electricity to over 30 electric utilities through its participation in four wholesale markets in Canada and the mid-western United States.

Manitoba Hydro offers its customers a wide range of energy services, either directly or through its subsidiaries. In addition to providing electricity and natural gas, the Corporation aggressively promotes energy conservation and savings through its many Power Smart* programs. Manitoba Hydro is also known nationally for its quality of service and reliability and is the only Canadian utility that participates as a member of an international regional transmission organization. A respected corporate citizen, Manitoba Hydro is well-known for its support for community events in the province and its renowned employee volunteerism.

Nearly all of Manitoba Hydro's electricity is generated from self-renewing waterpower. On average, about 30 billion kilowatt-hours of electricity are generated annually, with

98 per cent of the total produced from 14 hydroelectric generating stations, primarily on the Winnipeg, Saskatchewan, and Nelson rivers. About two per cent of the province's energy needs are produced from two thermal generating stations and four remote diesel generating stations. In addition, Manitoba Hydro purchases wind power from the independently-owned, 99-megawatt St. Leon Wind Farm in southwestern Manitoba.

Manitoba Hydro also delivers natural gas to nearly 100 communities in the province. On average, about 2.1 billion cubic metres of natural gas are delivered through the system annually.

The Corporation's capital assets in service at original cost exceed \$11 billion, making Manitoba Hydro one of the largest energy utilities in Canada. The governance of the Corporation is through The Manitoba Hydro-Electric Board, whose members are appointed by the Lieutenant-Governor in Council.

VISION

To be the best utility in North America with respect to safety, rates, reliability, customer satisfaction, and environmental management, and to always be considerate of the needs of customers, employees, and stakeholders.

GOALS

- Improve safety in the work environment.
- Provide customers with exceptional value.
- Be a leader in strengthening working relationships with Aboriginal peoples.
- Improve corporate financial strength.
- Maximize export power net revenues.
- Attract, develop, and retain a highly motivated workforce that reflects the demographics of Manitoba.
- Be proactive in protecting the environment and the leading utility in promoting sustainable energy supply and service.
- Be an outstanding corporate citizen.
- Proactively support agencies responsible for business development in Manitoba.
- Be a national leader in implementing cost-effective energy conservation and alternative energy programs.

MISSION

To provide for the continuance of a supply of energy to meet the needs of the province and to promote economy and efficiency in the development, generation, transmission, distribution, supply, and end-use of energy.



Construction of the 48-km access road to Wuskwatim started in earnest in August 2006.

Highlights

- > On August 11, 2006, work on the 200-megawatt Wuskwatim Generating Station started with construction of the 48-km access road from Provincial Road 391 to the station site. Manitoba Hydro and Nisichawayasihk Cree Nation officials signed the Project Development Agreement at a historic ceremony held in Nelson House on June 26, 2006.
- > Construction on Manitoba Hydro's 22-storey office headquarters in downtown Winnipeg continued throughout the year. By year's end, concrete was being poured on the building's eighth floor.
- > Manitoba's first wind farm, near St. Leon, Manitoba, reached full commercial operation in June 2006. Manitoba Hydro is purchasing the power from the independently-owned wind farm under the terms of a 25-year Power Purchase Agreement.
- > Staff, residents, and retired workers celebrated the 75th anniversaries of two Manitoba Hydro generating stations in 2006 – Seven Sisters in May and Slave Falls in September.
- > Natural gas service was extended to the town of Shoal Lake in October 2006.
- > A milestone of \$100 million in loans was reached in October 2006 through the Power Smart Residential Loan Program from Manitoba Hydro, an entire year ahead of previous forecasts. The loan remains a valuable tool for customers wanting to make their homes more efficient and comfortable while lowering their energy bills.
- > In October 2006, Manitoba Hydro signed a Term Sheet with Xcel Energy's Northern States Power company of Minnesota to provide over \$2.2 billion in hydropower over 10 years, starting in 2015.
- > Winnipeg played host to the 2006 CFL Grey Cup Championship with Manitoba Hydro participating as a premier sponsor in the Grey Cup Festival and title sponsor of the Manitoba Hydro Grey Cup Parade.
- > At the end of 2006, Manitoba Hydro's average net greenhouse gas emissions were 27 per cent below 1990 levels, well exceeding the utility's commitment of a six per cent reduction under the national Voluntary Challenge and Registry program.
- > In February 2007, Fox Lake Cree Nation and Manitoba Hydro signed a process agreement for the Conawapa Generating Station that sets out a process and funding mechanism for Fox Lake Cree Nation's participation in planning and consultation on the development of the future station.
- > Manitoba Hydro issued a request for proposals for new wind projects in the province totaling up to 300 megawatts, or enough to power 100 000 homes.

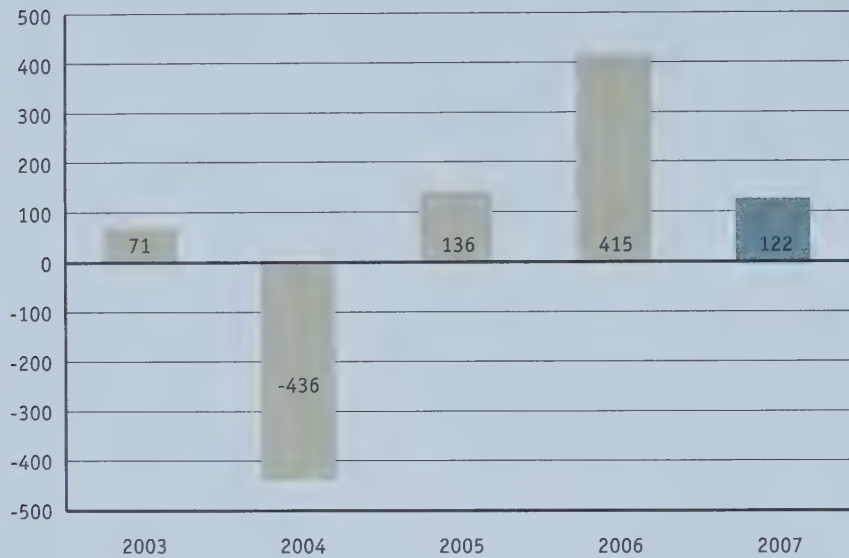
The independently-owned, 99-megawatt St. Leon Wind Farm in southwest Manitoba.



Highlights

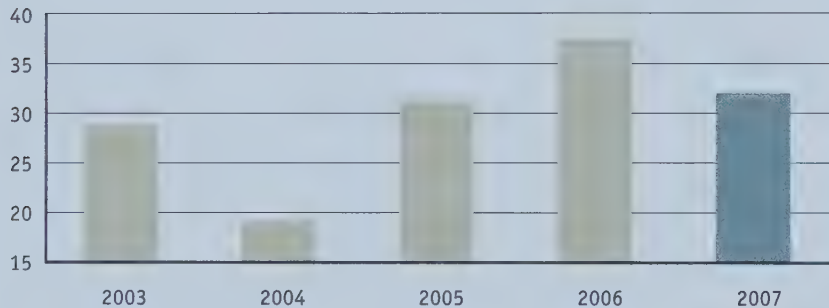
NET INCOME

millions of dollars



TOTAL GENERATION

billions of kWh



ANNUAL RATE CHANGES VS. MANITOBA CONSUMER PRICE INDEX

(1992 = 100)

CONSUMER PRICE INDEX
MANITOBA HYDRO RESIDENTIAL
MANITOBA HYDRO INDUSTRIAL



CONSOLIDATED FINANCIAL RESULTS

	ELECTRICITY		NATURAL GAS		TOTAL	
Revenue	2007	2006	2007	2006	2007	2006
			<i>millions of dollars</i>			
Manitoba	1 040	1 001	508	517	1 548	1 518
Extraprovincial	592	827	-	-	592	827
	<u>1 632</u>	<u>1 828</u>	<u>508</u>	<u>517</u>	<u>2 140</u>	<u>2 345</u>
Cost of gas sold	-	-	379	397	379	397
Expenses	1 511	1408	128	125	1 639	1 533
Net income	<u>121</u>	<u>420</u>	<u>1</u>	<u>(5)</u>	<u>122</u>	<u>415</u>
Retained earnings	1 386	1 265	21	20	1 407	1 285

OPERATING RESULTS

	2007	2006	Increase/(Decrease)
Electrical Operations			
Sales		<i>billions of kilowatt-hours</i>	
Manitoba sales	20.5	19.9	0.6
Extraprovincial sales	8.2	13.8	(5.6)
System supply		<i>billions of kilowatt-hours</i>	
Generation	32.1	37.6	(5.5)
Imports	1.9	0.2	0.9
Manitoba peak load	4 173	<i>thousands of kilowatts</i> 4 054	119

	2007	2006	Increase/(Decrease)
Natural Gas Deliveries			
		<i>millions of cubic metres</i>	
Residential sales	620	579	74
Commercial and industrial sales	844	803	8
	<u>1 464</u>	<u>1 382</u>	<u>82</u>
Transportation service	592	598	(6)
	<u>2 056</u>	<u>1 980</u>	<u>76</u>

Message from the Chairman



The Board of Manitoba Hydro noted the progress of the Corporation during the year towards the achievement of its goals, including the start of work on the 200-megawatt Wuskwatim project, an important model for future hydro-electric developments in northern Manitoba.

Working closely with the Nisichawayasihk Cree Nation (NCN) in the very early stages of the project, Manitoba Hydro ensured that the community was fully aware of the environmental impacts of the project and its potential economic benefits. In turn, the Corporation received the knowledge of the people who had lived in the area for generations. By working together, NCN was able to influence the size of the proposed generating station and therefore its environmental impacts. It now has the opportunity to own up to 33 per cent of the generating station when it is completed, promising a long-term revenue source for the community as it looks to the future of its young people.

In June 2006, it was exciting to witness the official start up of the St. Leon Wind Farm, a privately-owned undertaking, as wind power was added to the Manitoba grid for the first time. Manitoba Hydro has a 25-year purchase agreement with the wind farm operator and the Corporation is currently looking to add another 300 megawatts of wind to the Manitoba system.

The Corporation continues to look at many ways to meet the current and future energy needs of Manitobans: by extending the natural gas system to unserved areas, by looking at partnerships with First Nations to develop new hydroelectric facilities such as Conawapa and Keeyask, and by refurbishing existing facilities such as the Kelsey and Pointe du Bois hydroelectric stations. Retrofitting older facilities not only extends the lives of these stations but also often allows an increase in the plant's output at the same time. In addition to purchases from new wind farms, Manitoba Hydro is also looking at other alternative means of generating electricity or capturing gas from sources such as landfill sites.

Helping Manitobans use energy wisely is also a way to help meet future energy needs, by reducing energy consumption without sacrificing comfort. The Corporation's wide range of Power Smart programs have for many years provided incentives and advice about increasing energy efficiency and lowering costs. In some instances, such as with geothermal heat pump systems, Manitobans have become leaders in the country in adopting energy-saving technologies, in part because of the availability of Earth Power loans from Manitoba Hydro.

The Board was pleased with the recognition received by the Corporation during the year for its energy conservation programs. Manitoba Hydro was awarded Utility of the Year at the 2006 Canadian Energy Star® Market Transformation Awards, which recognize the best-in-class performance of companies offering customers energy efficient products or services. In November, 2006, Manitoba Hydro and the Province of Manitoba received an "A" rating from the Canadian Energy Efficiency Alliance – a non-profit organization that promotes energy efficiency in Canada. Manitoba ranked highest among all the provinces.

In connection with the development of new northern hydroelectric resources, the Corporation was instrumental in establishing the Northern Training Initiative which offers training to prepare northern Aboriginal people for employment in Hydro construction, as well as other projects. The \$60 million initiative is being funded by the federal and provincial governments along with Hydro, and is being administered by the Wuskwatim and Keeyask Training Consortium. Training had been provided to some 1 300 people by the end of the fiscal year in such trades as carpentry, welding, electrical, ironwork, mechanical, and plumbing.

In matters of employment, training, the settling of outstanding claims and issues, I continue to be impressed by the progress of the Corporation as it seeks to meet one of its goals of being a "Leader in strengthening working relationship with Aboriginal Peoples." While work remains, Manitoba Hydro has made significant strides in the last decade in improving relations with Aboriginals in the province.

I would like to thank my fellow Board members for their participation and advice during the year and to acknowledge the efforts of Manitoba Hydro CEO Bob Brennan, management, and employees from all parts of the province in meeting the electricity and natural gas needs of Manitobans.



Victor H. Schroeder, QC

Chairman

The Manitoba Hydro-Electric Board



Manitoba Hydro made significant progress on several major projects during the year while continuing to focus on its mission of providing Manitobans with a long-term supply of energy in a safe, cost-effective, reliable and environmentally appropriate manner.

A major accomplishment was getting work underway on an access road to the site of the future Wuskwatim Generating Station. The beginning of construction followed a positive vote on the project by the Nisichawayasihk Cree Nation (NCN), which is partnering with the Corporation in building the new hydroelectric facility. I commend the cooperative and steadfast leadership of NCN as they worked with us to see the project to its starting point and I would like to thank the community as a whole for their trust and support in moving the project forward.

On other fronts, the new head office building in downtown Winnipeg continued to take shape, with noticeable progress upwards as new stories were added to the structure. Excitement is also rising within the Corporation as employees make plans to transition to the new building, one that will quickly establish itself as a landmark in Winnipeg both for its striking appearance and its outstanding energy performance.

At the end of the fiscal year, the Corporation issued a Request for Proposals to add 300 megawatts of new wind energy to the Manitoba system. Manitoba Hydro currently has an agreement to purchase the output of electricity from a 99-megawatt wind farm in St. Leon, Manitoba, one of the largest wind farms in Canada.

Net income for the year was \$122 million, down from the record earnings of \$415 million achieved last year. Water conditions returned to more normal levels this year resulting in less production from the hydroelectric generating facilities compared to last year, and therefore less export revenues from sales of surplus power. Export sales remained strong, however, reaching \$592 million, the second highest in the Corporation's history.

The prospects for future export sales remained very favourable, as evidenced by the signing of a term sheet with Xcel Energy's Northern States Power (NSP) company of Minnesota. The 10-year agreement would provide for a sale of 375 megawatts of electricity to NSP starting in 2015 with the opportunity to increase to 500 megawatts in 2021. The proposed sale must be approved by the Minnesota Public Utilities Commission and the National Energy Board of Canada.

The Corporation is highly regarded for its leadership in energy conservation programs and accomplished a milestone during the year in reaching a total of \$100 million in Power Smart residential loans. This money is used by Manitobans to add insulation, upgrade windows and doors and change out inefficient furnaces, as well as many other energy efficiency improvements.

New Power Smart programs were added during the year and some existing programs modified or expanded to maximize benefits and expand the range of incentives. And Manitobans – residential, commercial and industrial customers – continue to respond by taking advantage of Power Smart programs.

"I commend the cooperative and steadfast leadership of NCN as they worked with us to see Wuskwatim to its starting point, and I would like to thank the community as a whole for their trust and support in moving the project forward."

Manitoba Hydro continues to enjoy success in increasing employment of Aboriginals as part of Hydro's workforce, with 12 per cent of all employees and 37 per cent of northern Hydro employees being Aboriginal. The Corporation has put in place several programs – including targeted recruiting to the awarding of bursaries to pre-placement training – to assist in further elevating Aboriginal representation in the workforce and to provide a broader range of career opportunities for all Aboriginal people.

The Corporation conducts its operations in an environmentally sustainable way and it takes this responsibility very seriously. Not only do we monitor our environmental performance, we also educate employees in this regard and undertake research, both short and long term, into potential environmental impacts of projects and operations. In addition, we provide funding through the Environmental Partnership Fund to support environmental stewardship projects in Manitoba, while the Manitoba Hydro Forest Enhancement Program provides support for community-based tree planting and forest education and research initiatives.

Message from the President

A top priority for the Corporation is improving the safety record of its employees. Major new initiatives were undertaken during the year and progress is being made towards achieving a safety objective of zero workplace incidents. More emphasis is being placed on safety training, joint labour-management approaches to safe work practices and a strengthening of the safety culture throughout the Corporation.

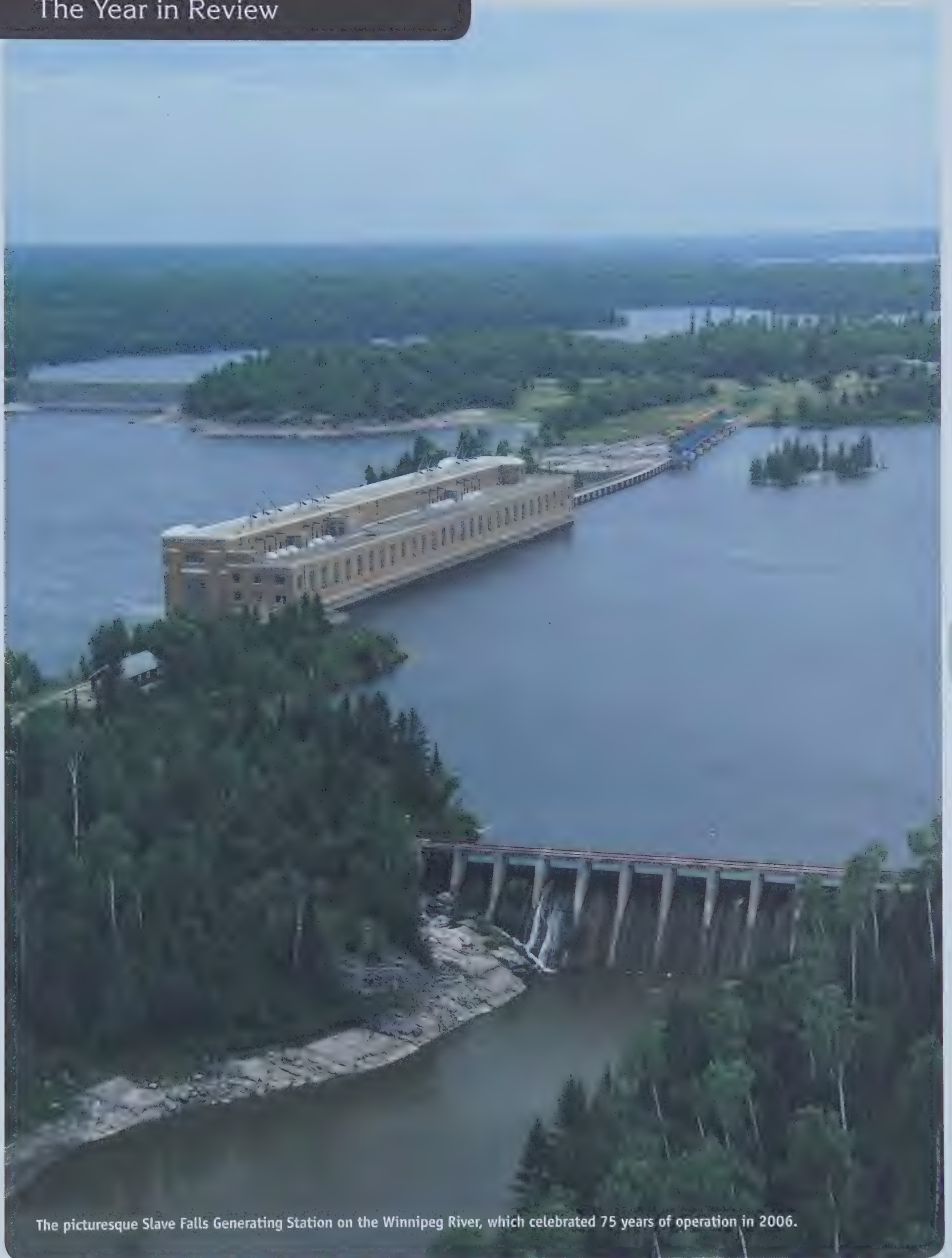
The Corporation and its employees continued to support Manitoba communities through involvement in events large and small throughout the province. Manitoba Hydro was a premier sponsor of the Grey Cup Festival and title sponsor of the Grey Cup Parade. We were a major sponsor of the Special Olympics Canada Summer Games in Brandon and continued our long term relationship with the Festival du Voyageur, the largest winter festival in western Canada and a celebration of Francophone history. Hundreds of Hydro employees contributed to the well-being of their communities through their volunteer efforts in local recreational activities, cultural and charitable endeavours.

I would like to acknowledge the ongoing efforts of the 5 600 Manitoba Hydro employees in continuing to successfully meet the energy needs of Manitobans with skill and dedication. I am justifiably proud of all of them.

I also thank the Chairman of the Manitoba Hydro-Electric Board, Victor Schroeder, and all the Board members for their guidance and assistance throughout the year.



R.B. Brennan, FCA
President and CEO



The picturesque Slave Falls Generating Station on the Winnipeg River, which celebrated 75 years of operation in 2006.

WE'RE THERE

Customer satisfaction with Manitoba Hydro's electricity rates and services is historically very high. In 2006-07, customers remained very satisfied with the utility's overall customer service, reporting satisfaction levels at the top end of their typical range and higher than the national average for Canadian electric utilities.

ADVANCED METERING TECHNOLOGY TESTED

At the end of the year, Manitoba Hydro began the installation of a unique metering technology for a pilot group of residential customers in Winnipeg. The wireless automatic meter reading and cellular communication system is the first of its kind in Canada. Following the installation in Winnipeg, another pilot group of residential customers near Landmark will also have the metering system installed.

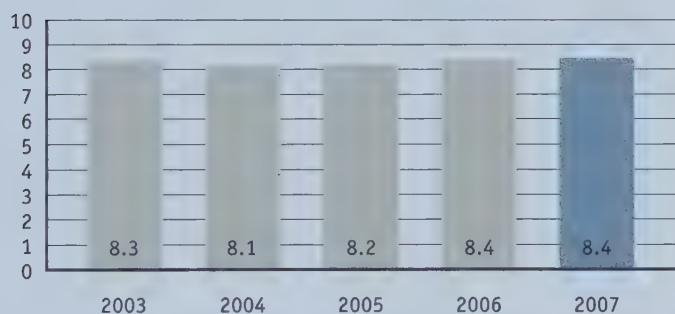
Benefits of the new technology include improved system reliability, accuracy in metering and billing, and enhanced energy conservation. It could also provide the capability to offer a broad range of additional new services, such as flexible rate plans, time-of-use information, customer *in-home* energy use display, and faster response times for power outages and restorations.



Hydro President & CEO Bob Brennan and Itron's Malcolm Unsworth with a new type of advanced electricity meter.

CUSTOMER SATISFACTION WITH OVERALL SERVICE

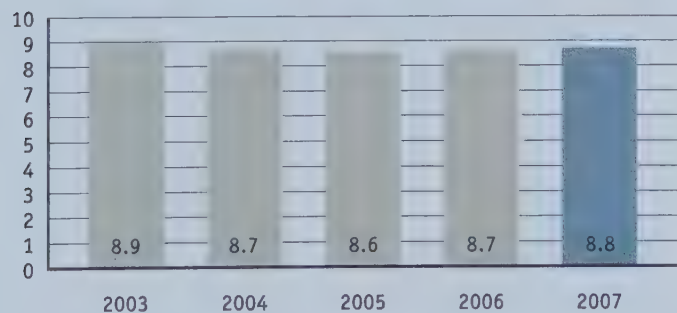
(Source: MH quarterly Customer Satisfaction Tracking Study)



Customers remain very satisfied with Manitoba Hydro's overall customer service, reporting satisfaction levels which continue to be at the top end of their typical range and higher than the national average of 7.8 for Canadian electric utilities. Manitoba Hydro's customer service continued to be rated the highest in Canada during 2006.

CUSTOMER SATISFACTION WITH SYSTEM RELIABILITY (ELECTRICITY)

(Source: MH quarterly Customer Satisfaction Tracking Study)



Exceptional Customer Service

NATURAL GAS EXTENDED TO SHOAL LAKE

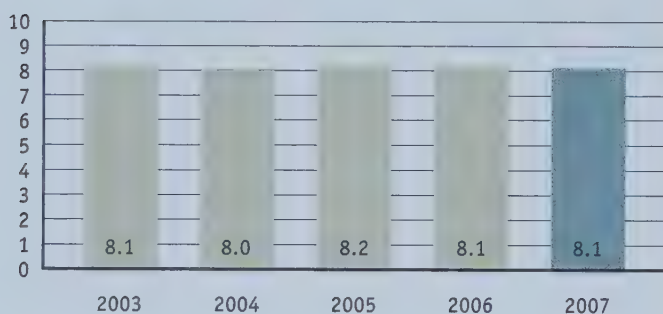
In early October 2006, a project to extend natural gas service to Shoal Lake in southwestern Manitoba was completed.

The use of a new type of polyethylene pipe allowed for higher operating pressures compared to conventional polyethylene pipe at a reduced cost. Manitoba Hydro is the first utility in the country to install and operate the new pipe, known as PE100, as part of its gas distribution system.

The extension to Shoal Lake will result in significant cost savings for the majority of commercial businesses that were using propane as their primary heating and processing fuel. The availability of natural gas also supports the community's long-term development strategy for attracting value-added agricultural businesses.

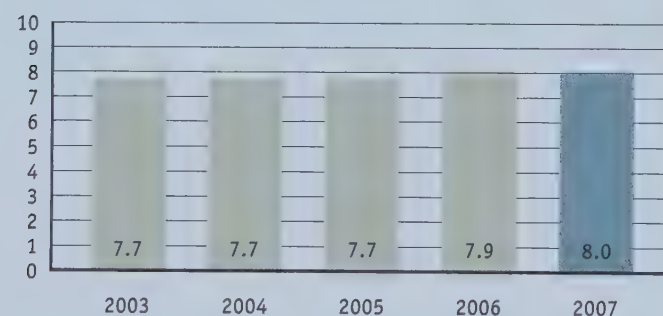
CORPORATE IMAGE DATA

(Source: MH quarterly Customer Satisfaction Tracking Study)



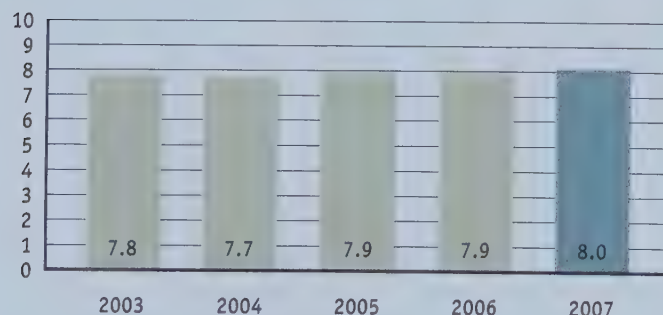
CORPORATE CITIZENSHIP - ENVIRONMENTAL COMPONENT

(Source: MH quarterly Customer Satisfaction Tracking Study)



CORPORATE CITIZENSHIP

(Source: MH quarterly Customer Satisfaction Tracking Study)



PRIMARY GAS EDUCATION CAMPAIGN

In September 2006, Manitoba Hydro launched a public awareness campaign to educate residential customers on the various issues surrounding the options for purchasing primary gas in Manitoba. A guidebook called *Residential Guide to Buying Natural Gas* was delivered to all gas customers in the utility's September 2006 bills. The book was developed with input from natural gas marketers, the Consumers' Association of Canada (Manitoba), and the Manitoba Society of Seniors.

The guidebook helps customers better understand their options in purchasing primary natural gas, such as the role of Manitoba Hydro and natural gas marketers and the benefits, risks, and potential impacts of their choices.

NATURAL GAS RATES

Manitoba Hydro purchases its natural gas from producers in Alberta and transports it to Manitoba via the TransCanada Pipeline network. The Corporation helps lessen the impact of volatile gas prices through the use of derivative instruments, deferral accounts, using gas storage, and through the quarterly adjustment of gas rates. During the fiscal year, the following changes to natural gas prices were implemented: May 2006 (0.7 per cent increase), August 2006 (7.0 per cent decrease), November 2006 (1.1 per cent decrease). All percentages above are based on an average annual increase or decrease for residential natural gas customers.

ELECTRICITY RATES

Manitoba Hydro increased electricity rates by 2.25 per cent for all customer classes except Area and Roadway Lighting on March 1, 2007. The last electricity increase occurred two years earlier.

A natural gas control valve on the grounds of the Selkirk Generating Station.



Exceptional Customer Service



HYDRO ASSISTS UNION GAS IN KENORA

Not only has Manitoba Hydro earned a reputation for service and reliability on the domestic front, it has also garnered accolades as a utility to be counted on in a crisis.

In July 2006, the City of Kenora, Ontario experienced a major gas interruption – the result of a severed six-inch gas pipeline – that affected over 3 800 residences. Nineteen

employees from Manitoba Hydro gave up a July weekend to help out, shutting off gas services to homes and relighting after the rupture was repaired. Union Gas employees and Kenora residents alike expressed their gratitude to Manitoba Hydro for their efforts.

SUBSIDIARY: MANITOBA HYDRO UTILITY SERVICES

Manitoba Hydro Utility Services (MHUS) continued to provide integrated meter reading services as well as temporary labour to assist Manitoba Hydro in meeting short term operational requirements. The subsidiary, now in its ninth year, achieves savings and synergies by reading customers' electricity and natural gas meters simultaneously. MHUS provided 3.4 million meter readings (both gas and electric) in the fiscal year.



KNOW YOUR HYDRO

AFFORDABLE ENERGY FOR MANITOBBANS

Manitoba's electricity rates are the lowest in Canada and, in some cases, Manitobans pay less than half of what they might pay in another province. Exporting surplus energy helps keep costs low domestically and helps reduce greenhouse gas emissions.

Billboard from the *Know Your Hydro* public awareness campaign.

Manitoba Hydro

**Customer inquiries/
Demandes de renseignements**

Customer service Service à la clientèle	474-4990 1-800-862-6306
Service en français	474-4989 1-866-207-2266
Relay impaired	925-0767

Account

Customer name Nom de l'abonné	AN
Account number N° de compte	777
Service location Address de service	1/2 CI
Date issued Date d'émission	De
Amount due Montant à payer	\$
Due date Date d'échéance	Jc

**COMPARED TO OTHER PLACES.
IT'S LIKE GETTING HALF A BILL.**

**WHEN MANITOBBANS NEED AFFORDABLE ENERGY,
WE'RE THERE.**

www.yourhydro.com

WE'RE THERE

Encouraging our customers to use energy wisely has been a part of what we do at Manitoba Hydro since Power Smart was first introduced here in 1991. Every year, new programs and initiatives are offered to residential and commercial customers alike – the past year was no exception.

 **BLUE CROSS**



POWER SMART RESIDENTIAL LOAN PROGRAM REACHES \$100 MILLION

A milestone of \$100 million in loans was reached in October 2006 through the Power Smart Residential Loan Program from Manitoba Hydro, an entire year ahead of previous forecasts. The loan remains a valuable tool for customers wanting to make their homes more efficient and comfortable while lowering their energy bills.

Over 29 000 customers have taken advantage of the program since it started in 2001. The loan can be used for upgrades such as adding insulation, installing ventilation, sealing air leaks, replacing windows and doors, and upgrading to high-efficiency natural gas furnaces. Customers can borrow up to \$7 500 per residence, while the minimum loan amount is \$500. Since the loan's inception, Manitoba customers have saved \$12 million and 52 348 tonnes of greenhouse gases have been prevented from entering the atmosphere.

IN-HOME ENERGY EVALUATION PROGRAM

Following the cancellation of the federal EnerGuide for Houses energy evaluation program in May 2006, Manitoba Hydro continued to offer Manitobans three options to obtain a home audit.

The Comprehensive In-Home Energy Evaluation includes a home visit, assessment, written report, energy rating number assignment, and suggestions for energy efficient improvements. The Mail-in Energy Assessment Survey includes a customized energy efficiency report and suggestions for energy efficient improvements. The online Home Comfort and Energy Assessment is free of charge and includes a customized report and suggestions for energy efficient improvements based upon self-reported information through Manitoba Hydro's website.

WISE PROGRAM RESTRUCTURED TO BENEFIT SENIORS

Last May, Manitoba Hydro and the Manitoba Society of Seniors (MSOS) launched a slightly revamped Wisdom in Saving Energy (WISE) program to benefit seniors. The new community-based program has the same intent – to assist Winnipeggers 55 and older in managing their water, electricity, and natural gas costs.

Customers in this age group can now call MSOS directly to arrange for home energy assistance, delivered at no cost by senior volunteers. The volunteers visit the home, provide information on Power Smart programs, and install a few energy saving devices for immediate energy savings. Energy saving products installed during the upgrade could save homeowners approximately \$80 per year on their energy bills plus an additional \$30 in water savings.

PROGRAMMABLE THERMOSTAT REBATE PROGRAM

In October, another new program was added to the energy efficiency roster. Through the Residential Programmable Thermostat Rebate Program, customers were eligible for a \$20 credit to their Manitoba Hydro account for each home thermostat replaced with an Energy Star® qualified electronic programmable model.

Left: The Manitoba Blue Cross building in Winnipeg was presented with a plaque from Manitoba Hydro honouring the efforts of the building's retrofitters in meeting the strict criteria of Power Smart Design Standards. After the renovations, the building's efficiency was assessed as being 25 per cent more efficient than the model National Energy Code.

The renovations included Power Smart lighting (T8 and T5 fluorescent lights), LED exit signs, compact fluorescents and occupancy sensors to control lighting in unoccupied areas. In addition, the building makes use of 58 parking lot controllers and two high efficiency Fulton condensing boilers. By using less gas, the boilers help reduce greenhouse gas emissions and operating costs, while creating a more uniform internal working temperature. With the Power Smart technologies installed, Manitoba Blue Cross can expect to save approximately \$22 000 annually in gas and electric costs.

GEOTHERMAL INSTALLATIONS CONTINUE TO CLIMB

On a per capita basis, Manitoba installs geothermal systems at more than three times the Canadian average, including 800 units in 2006 alone. The growth has been tied to Manitoba Hydro's introduction of the Residential Earth Power Loan in 2002. The loans have helped offset the higher capital cost of geothermal systems, which are ultimately recouped by customers through heating and cooling savings.

SEASONAL LED PROMOTION

The Seasonal LED Lighting Program was launched in the fall of 2006 to coincide with the holiday lighting season. The initiative encouraged residential customers to convert their existing incandescent seasonal lighting to energy efficient LED lighting. Over 10 600 customers participated, substantially higher than forecast.

POWER SMART APPLIANCE PROGRAM

The Power Smart Appliance Program, introduced in June 2006, encourages customers to purchase energy efficient Energy Star® appliances when purchasing a new refrigerator, clothes washer, or freezer. By year's end, over 11 000 customer applications were received, with the majority of interest being in the front loading clothes washers.

POWER SMART ELIGIBILITY EXPANDED

At the end of the fiscal year, Manitoba Hydro announced it was eliminating fuel source eligibility requirements for participation in Power Smart programs. All Manitobans, especially those who use propane, fuel oil, or wood as their primary heating source, can now qualify. By expanding eligibility and making improvements, home heating bills will now be more affordable for all users.

A geothermal heat pump installation in southwest Winnipeg.



NEW POWER SMART FOR BUSINESS PROGRAMS

Five new Power Smart for Business Programs were unveiled at the Better Buildings Conference in Winnipeg in May 2006. They include the Building Envelope, Commercial Building Optimization, Commercial HVAC, Commercial Refrigeration, and Low-Flow Pre-Rinse Spray Valve programs.

Each program also provides assistance to customers to help them determine which energy efficient measures and upgrades will be most beneficial for their businesses and buildings. Total annual energy bill reductions as a result of these new programs are projected to be \$12.8 million.

PARKING LOT CONTROLLERS ALLOW MANITOBANS TO PLUG INTO SAVINGS

Plug into Savings was a limited-time incentive that provided financial assistance for customers who installed parking lot controllers. From November 17 to December 31, 2006, Manitoba Hydro's normal incentive of \$25 per controlled circuit was doubled to \$50 for qualifying parking lot controllers. The controllers manage the amount of electricity going to an outdoor plug depending on outdoor temperatures, allowing building and property managers to manage electricity usage in their parking lots.

HERITAGE BUILDING RENOVATED TO POWER SMART DESIGN STANDARDS

The historic Birks Building in downtown Winnipeg was retrofitted this year with a variety of energy-efficient improvements. The heritage building used Power Smart design standards to renovate the 43 000-square-foot office space – including roof and wall insulation upgrades, new custom window installations, and interior lighting upgrades (T8 and T5 fluorescents, compact fluorescents, occupancy sensors, and LED exit signs). Work on incorporating the energy efficient measures was completed by February 2007.

The Birks Building in downtown Winnipeg was retrofitted to Power Smart design standards.

CENTENNIAL PROJECT DELIVERS ON JOBS AND ENERGY SAVINGS

One of Winnipeg's lowest-income neighbourhoods became one of the city's most energy-efficient under a project that united job training, environmental leadership, and lower energy bills. Up to 120 homes in Winnipeg's Centennial neighbourhood are being retrofitted to improve energy efficiency.

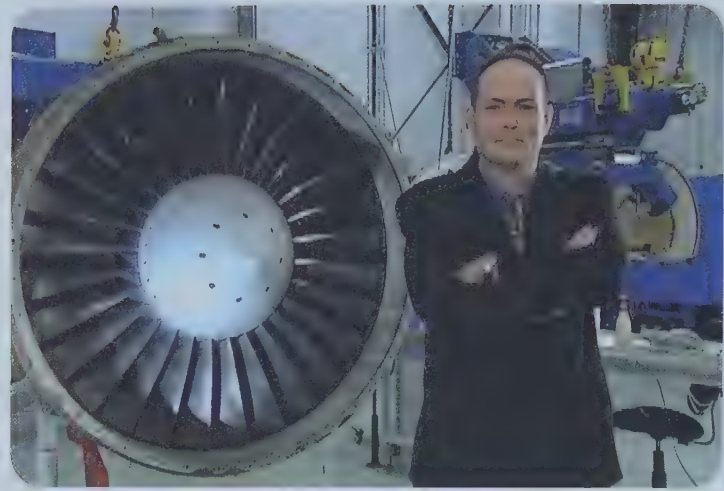
Manitoba Hydro partnered with the provincial government, the Community Education and Development Association, the Centennial Community Improvement Association, Building Urban Industries for Local Development (BUILD), the United Way, the Winnipeg Foundation, and the Winnipeg Partnership Agreement.

The project is a first for BUILD, which is an Aboriginal, non-profit organization based in the Centennial neighbourhood. BUILD will be involved with training six of its residents to weatherize, upgrade insulation, and install other energy saving measures in the homes. The grassroots Centennial Project may prove to be a model for other, similar neighbourhoods.



TELEVISION FEATURES FOCUS ON ENERGY-EFFICIENT TECHNOLOGIES FOR BUSINESS

Manitoba Hydro partnered with Global TV Manitoba in 2006 to produce *It's Bigger Than You Think*, a series of eight one-minute vignettes highlighting successful Manitoba businesses that employ energy efficient technologies and practices. The series profiled Standard Aero, INCO, Simplot Foods, Loewen Windows, Friesens Printing, the Health Sciences Centre, Boeing Canada, and Louisiana Pacific. To compliment the vignettes, both Global TV and Manitoba Hydro websites provided the option of viewing the complete series as well as providing information on other services offered by Manitoba Hydro.



Awards and Acknowledgements

CEEA AWARDS MANITOBA AN 'A' FOR SECOND YEAR

In November 2006, Manitoba Hydro and the Province of Manitoba received an A rating for the second year in a row from the Canadian Energy Efficiency Alliance's (CEEA) Annual Report Card on Government Activities. Manitoba once again ranked highest among Canadian provinces.

Several Power Smart programs helped push Manitoba into the top spot, including the Corporation's new furnace replacement incentives, the insulation upgrade program, the LED Christmas light campaign, the compact fluorescent program, and an aggressive new suite of commercial programs.

The CEEA is a non-profit, member-supported organization charged with promoting energy efficiency in Canada and includes membership from private companies, provincial energy utilities, and the federal government.

UTILITY OF THE YEAR

Manitoba Hydro was awarded Utility of the Year at the 2006 Canadian Energy Star® Market Transformation Awards held in Toronto. The awards recognize companies and organizations that are best-in-class in terms of offering Canadian consumers the most energy-efficient product, technology, or service available on the market. The award was received for several initiatives, including the Residential Loan, New Home Program, Compact Fluorescent Lighting Program, and Furnace and Boiler Replacement Program.

One of the many reasons that Manitoba Hydro garnered its second top award from the CEEA – the Compact Fluorescent Lighting Program.



WE'RE THERE

Generating and delivering electricity and providing natural gas service are the cornerstones of Manitoba Hydro's business. Both the utility's rich legacy and its future were in clear view this year. Two stations on the Winnipeg River celebrated 75 years of operation and construction on the new Wuskwatim Generating Station started in August 2006.

Taskinigup Falls in the winter, site of the future 200-megawatt Wuskwatim Generating Station.

WUSKWATIM PROJECT MOVES AHEAD

On August 11, 2006, construction of the 200-megawatt Wuskwatim Generating Station got underway with the start of the 48 km access road. The road runs from Provincial Road 391 to the station site on the Burntwood River, 45 km southwest of Thompson.

Manitoba Hydro and the Nisichawayasihk Cree Nation (NCN) concluded negotiations of the Project Development Agreement (PDA) for the development of the station in March 2006. NCN then undertook a three-month consultation process which culminated in a referendum to determine the community's support to partner with Manitoba Hydro. Seventy per cent of NCN's eligible members voted, with about 64 per cent voting in favour of proceeding with Wuskwatim.

After ratification, senior Manitoba Hydro officials and NCN's Chief and Council signed the PDA at an historic ceremony held in Nelson House on June 26, 2006. Federal, provincial and municipal government officials, various First Nation leaders, regional business representatives, and many community members attended the ceremony.

Following the signing of the PDA, NCN joined the Wuskwatim Power Limited Partnership and Manitoba Hydro and NCN became official business partners. Under the partnership structure, Manitoba Hydro is responsible for building, managing, and operating the station. NCN has the opportunity to own up to 33 per cent of the Wuskwatim Generating Station.

During the past year, environmental approvals to begin construction of the Wuskwatim Generating Station and associated transmission facilities were received from federal and provincial regulators. The authorizations were consistent with the comprehensive environmental impact assessments conducted by Manitoba Hydro and

NCN; recommendations by Manitoba's Clean Environment Commission; and the findings of a comprehensive study report by the federal Department of Fisheries and Oceans.

The main focus of the site work to date has been establishing the camps, ensuring the completion of the all-weather access to the main dam site, and provision of power for construction prior to the 2007 spring break-up. This work was successfully accomplished in compliance with all major conditions of the environmental licenses and permits.

The work to date on Wuskwatim has been completed with a construction workforce composed of approximately 75 per cent of Aboriginal persons. And for the first time in Manitoba Hydro's major construction history, on-site cultural ceremonies were performed in advance of various work activities.

In addition, the station's turbine and generator contract was awarded to General Electric Canada in August 2006 and specifications for the General Civil Contract were finalized for tender.

An Aboriginal worker prepares for a stream crossing ceremony at Wuskwatim.



KEYYASK GENERATING STATION

The Corporation continued its planning, environmental studies, consultations, and negotiations on the Keeyask Generating Station project and is negotiating with Tataskweyak Cree Nation, War Lake First Nation, York Factory First Nation, and Fox Lake Cree Nation, to reach a joint development agreement on Keeyask. Environmental studies for the Keeyask project are continuing in collaboration with these four First Nations. The next phase of Keeyask will be to move forward to the provincial and federal regulatory review process.

Members of the Cree Nations continue to participate in training for potential jobs on Keeyask and many have already been employed in the field studies relating to the project.

Keeyask is located on the Nelson River, upstream of the Kettle Generating Station. The project, which would add 620 megawatts to the hydroelectric system, could be in-service as early as 2017.

CONAWAPA GENERATING STATION

In addition to Keeyask, the Corporation engaged in preliminary engineering and environmental work on the proposed Conawapa project. Cree Nation members are also participating in field studies related to this project.

Conawapa is located on the Nelson River, downstream of the Limestone Generation Station, and has a scheduled in-service date of 2021 to meet Manitoba's future load growth. Conawapa would add 1 250 megawatts to the hydroelectric system.

Process agreements for the planning and development of Conawapa were signed with Fox Lake Cree Nation and York Factory First Nation and similar agreements are being negotiated with Tataskweyak Cree Nation and War Lake First Nation. Environmental studies are being undertaken with the involvement of these communities.

SELKIRK GENERATING STATION OPERATIONS APPROVED

Manitoba Conservation approved Manitoba Hydro's Environmental Impact Statement (EIS) for the continued operation of the Selkirk Generating Station in 2007. In the EIS, the Corporation updated its aquatic studies, air quality health risk assessments, and socio-economic assessments. The 126-megawatt Selkirk plant was converted from coal to natural gas supply in 2002.

BRANDON GENERATING STATION ENVIRONMENTAL IMPACT STATEMENT

Manitoba Hydro hosted a Public Open House at the Brandon Generating Station in November 2006 to present results from environmental studies conducted on the ongoing operations of the station's thermal Generating Unit 5. The public and other stakeholders were invited to learn more about these studies, speak with project experts, and provide comments that were then included in the EIS provided to Manitoba Conservation.

Following the open house, the EIS for the thermal unit was completed and provided to Manitoba Conservation for their Environment Act Licence Review, which will establish appropriate operating conditions and limits for the continued operation of Unit 5.

POINTE DU BOIS MODERNIZATION

Pointe du Bois Generating Station has been in operation since 1909 and is the oldest hydroelectric station in the system. In spite of extensive repairs and upgrades over the years, the plant requires a major overhaul or replacement. Three alternatives are currently being considered.

Manitoba Hydro initiated a pre-commitment consultation process on the Pointe du Bois alternatives to collect input from stakeholders on their interests and concerns. Public open houses were held at Pointe du Bois, Lac du Bonnet, and in Winnipeg in February 2007. Smaller meetings with other stakeholders were also organized and preliminary discussions were held with provincial and federal regulatory agencies. A decision on the final project concept is anticipated in 2007, after all stakeholder information has been considered.



\$2.2 BILLION POWER SALE BETWEEN MANITOBA HYDRO AND NSP

In October 2006, Manitoba Hydro signed a Term Sheet with Xcel Energy's Northern States Power (NSP) company of Minnesota to provide approximately \$2.2 billion in hydropower over 10 years, starting in 2015.

The arrangement with NSP provides 375 megawatts of power in 2015, with the potential to increase to 500 megawatts after 2021. The agreement secures a market for Manitoba Hydro's expanding generating system, which includes the 200-megawatt Wuskwatim station and existing and planned wind power expansion.

The sale has now entered the approval process with formal contract negotiations underway. The Minnesota Public Utilities Commission must approve the arrangement with Manitoba Hydro and the new contract will require approval of the National Energy Board of Canada.

WIND POWER

Manitoba's first wind farm, near St. Leon, Manitoba, reached full commercial operation in June 2006. The privately-owned St. Leon Wind Farm consists of 63 Vestas V82 turbines rated at 1.65 megawatts, each standing 80 metres tall. The farm, which augments the Corporation's existing hydroelectric system, is one of the largest in Canada. Manitoba Hydro is purchasing the output of the facility under a 25-year power purchase agreement.

At the end of the fiscal year, Manitoba Hydro also issued a request for proposals for new wind projects in the province totaling up to 300 megawatts, or enough to power 100 000 homes.

KELSEY RE-RUNNERING PROJECT PROCEEDS

This past year, extensive rehabilitation work was started on the 223-megawatt Kelsey Generating Station on the Nelson River. The turbine re-runnering project at Kelsey – Manitoba Hydro's oldest plant on the Nelson River – is expected to add an additional 84 megawatts to the plant's capacity. In the summer of 2006, the first five of Kelsey's seven generating units were replaced with more efficient turbine runners, new steel liners, and new transformers.

Opposite: The 74-megawatt Pointe du Bois Generating Station on the Winnipeg River. Right: Inside the 223-megawatt Kelsey Generating Station on the Nelson River.



Power for Generations

75TH ANNIVERSARIES OF WINNIPEG RIVER STATIONS

Staff, residents, and retired workers celebrated the 75th anniversaries of two Manitoba Hydro generating stations in 2006 – Seven Sisters in May and Slave Falls in September.

Seven Sisters, located about 90 kilometres east of Winnipeg, was built in two stages. Stage one started in July 1929 and the first three generating units began operating on May 9, 1931. Originally capable of 45 megawatts, a channel excavation in 1948 increased the output of Seven Sisters to 75 megawatts. That same year, construction on stage two began. By 1952, the sixth and final unit was placed into service, effectively doubling the generating station's total megawatt production. Today, Seven Sisters is capable of producing 165 megawatts.

In September, staff and guests gathered at the Pointe du Bois townsite to celebrate the 75th anniversary of Slave Falls Generating Station. The festivities included a luncheon, speeches, plaque unveiling, and tour of the former Winnipeg Hydro station. Slave Falls is known for its outstanding architecture and features huge windows overlooking the Winnipeg River, gleaming terrazzo floors, and a picturesque setting. The station started generating

power with two units on September 1, 1931. With the addition of two more units in October 1938, the first stage of the plant was complete. The construction of the second half of the station and expansion of the superstructure started just after the end of the Second World War in 1945. The final four generating units were in operation by November 1948, giving the plant its current capacity of 67 megawatts.

Both Slave Falls (top) and Seven Sisters (bottom) celebrated 75 years of continuous operation in 2006.





KNOW YOUR HYDRO

HARVESTING THE WIND

Wind is a clean, reliable, renewable source of energy and an excellent fit with hydroelectric power.

One of the largest wind farms in Canada is operating in southwest Manitoba at St. Leon, and currently generates 99 megawatts of electricity – enough to power all the households in Portage la Prairie and Morden combined.

Billboard from the *Know Your Hydro* public awareness campaign.

The Road to Wuskwatim

The accompanying images represent the unique characteristics of the Wuskwatim Generation Project and the special partnership that exists between the Nisichawayasihk Cree Nation (NCCN) and Manitoba Hydro. For the first time in the province's history, a major construction project has incorporated traditional and conventional knowledge.

A symbolic tree near the site of the future generating station is adorned in special colours, signifying the earth's elements and will remain untouched throughout the construction process.



From top, left to right:

1 & 2: Representing the present and future, several generations of NCN residents helped celebrate the historic signing of Wuskwatim's Project Development Agreement at Nelson House on June 26, 2006.

3 & 4: Construction workers on Wuskwatim's 48-km access road.

5 & 6: Building the access road continued throughout the winter.

7: Four women from NCN honour the spirit of the earth and water through prayer and tobacco offerings as the road nears completion.

WE'RE THERE

The security and reliability of Manitoba Hydro's transmission and distribution system is a fundamental component of the utility's mandate – to provide for the continuance of the supply of energy to meet the needs of the province. In the fiscal year, the Corporation fortified the network on a variety of fronts.

WUSKWATIM TRANSMISSION PROJECT UNDERWAY

In addition to the Wuskwatim Generating Station itself, the plant will require new transmission lines and substations to deliver electricity into Manitoba Hydro's existing transmission system. The points of connection will be at the new Birchtree Station in Thompson; at the existing Herblet Lake Station; and at the existing Rall's Island Station in The Pas.

One 230-kV transmission line is required between Wuskwatim and Birchtree; two 230-kV lines between Wuskwatim and Herblet Lake; and one 230-kV line between Herblet Lake and Rall's Island. The 45-km line between Wuskwatim and Birchtree has been completed and will be used initially to supply power for the building of the generating station.

Work on the transmission facilities began in earnest in 2006 after construction officially started on the station's access road in August 2006. Clearing of the Birchtree-Wuskwatim line began in late 2006 and preliminary work on the Wuskwatim Station near the generating station site started in February 2007. Transformers for the Wuskwatim Station were delivered to site in early March 2007.

EXPORTS TO THE UNITED STATES

Manitoba Hydro was once again one of Canada's largest exporters of electricity to the United States in 2006. Surplus energy and the Corporation's many Power Smart programs (which help reduce domestic demand and make more energy available) contributed to the export sales.

Wuskwatim Transmission Facilities



NORTH AMERICAN RELIABILITY COUNCIL STANDARDS

Spurred by the August 2003 blackout in eastern Canada and the United States, the North American Reliability Corporation (NERC) has the responsibility of making mandatory electricity reliability standards for the entire continental grid. Previously, NERC standards were voluntary for member utilities. Manitoba Hydro is a member of both NERC and the Midwest Reliability Organization, which has enforcement responsibilities in this region.

Some of the new standards include more rigorous vegetation management controls on transmission corridors and stringent back-up battery system controls for substations. During the fiscal year, the Corporation conducted an extensive internal review to formalize and document its compliance with NERC standards in preparation for the new, mandatory regime. In December 2006, the Manitoba legislature gave first reading to formalize electricity reliability requirements in Manitoba.

RIEL STATION RELIABILITY IMPROVEMENT INITIATIVE

As part of ongoing efforts to improve the reliability and security of Manitoba Hydro's high voltage alternating current system, planning for the 500-230 kV Riel Station at the east corner of Winnipeg continued in the fiscal year. As a first step, the Corporation will be working towards the licenses required for Riel with Manitoba Conservation and the National Energy Board.

The location is adjacent to some of the utility's major 230-kV and 500-kV transmission corridors. One of Riel's many benefits will be providing an extra layer of security to the network – the station would have the same import capability as Manitoba Hydro's Dorsey Converter Station, near Rosser.

EMERGENCY PREPAREDNESS

The utility's emergency experts were proactive again this past year, holding a number of planning sessions with provincial and municipal contacts and hosting the annual system-wide, mock-emergency exercise. The scenario in 2006 was based on a nation-wide bird flu outbreak and resulting pandemic. The mock emergencies provide several benefits, including testing the plan for any weaknesses in flow and structure and ensuring agencies outside the Corporation are actively involved.

FIBRE OPTICS SYSTEM EXPANDS

Manitoba Hydro's extensive fibre optics communications infrastructure expanded again this year with several new sections added, such as Ashern to Dauphin; Rosser to Ridgeway; and crossings under the Red River in Winnipeg – as a result of the Red River Floodway Expansion Project. In addition to utility requirements, the fibre optics network enables commercial communication services for other carriers and internet service providers.



WIRE SERVICES

Worldwide Integrated Rating Enhancement (WIRE) Services flew a record 3 758 km of transmission lines throughout North America and 345 km for Manitoba Hydro this year to re-rate transmission line capacity.

The work is performed primarily through helicopters equipped with LiDAR technology, which uses a sophisticated scanning method to collect transmission line data. The time-saving technology provides invaluable technical information on transmission lines, such as the maximum thermal operating limit of the lines relative to a specified ground clearance and vegetation interference.

Over its six-year history, WIRE Services has flown over 15 000 km of transmission lines and line routes for utilities throughout North America, with expansion into the international market currently underway. Three new clients from Canada, the United States and Central America were added to its growing client base in the fiscal year.

WIRE Services is a business initiative between Manitoba Hydro and Calgary-based LiDAR Services International.



SUBSIDIARY: MANITOBA HVDC RESEARCH CENTRE

This fiscal year, the Manitoba High Voltage Direct Current (HVDC) Research Centre released another, enhanced version of its premier power system simulation software, known as PSCAD. The latest version includes an improved user interface and software stability. Since PSCAD was first introduced, the Centre has sold over 1 900 commercial licenses in 72 countries. Through development and experience with one of the longest direct current lines in the world, Manitoba Hydro and the HVDC Research Centre are recognized internationally for their combined expertise in HVDC technology.



A maintenance worker inspects a thyristor valve at the Dorsey Converter Station, near Rosser.

Strengthening Aboriginal Relationships

Manitoba Hydro remains committed to assisting Aboriginal communities in a variety of ways – such as through job opportunities, educational initiatives, awards, and bursaries. The Corporation currently employs over 750 workers of Aboriginal descent. The utility has also committed in excess of \$550 million for compensation and mitigation initiatives in northern Manitoba.



WE'RE THERE

A northern worker beside one of the many large vehicles used to build the Wuskwatim access road.

FOX LAKE CREE NATION AND MANITOBA HYDRO SIGN CONAWAPA PROCESS AGREEMENT

In February 2007, Fox Lake Cree Nation and Manitoba Hydro signed a Process Agreement for the Conawapa Generating Station that sets out a process and funding mechanism for Fox Lake Cree Nation's participation in planning and consultation on the development of the future station. This includes project description, environmental and regulatory matters, training, employment and business opportunities, and the negotiation of adverse effects arrangements.

The agreement gives the Fox Lake Cree Nation a unique, significant, and leading role regarding the proposed project and ensures that Fox Lake has the resources to effectively participate in the planning.

Consistent with Manitoba Hydro's approach of working closely with First Nations to plan and develop new generating projects, a Conawapa Process Agreement was also completed in late 2006 with York Factory First Nation. A Conawapa Process Agreement is also being planned with the Cree Nation Partners comprised of Tataskweyak Cree Nation and War Lake First Nation.

Fox Lake Cree Nation and Manitoba Hydro also signed a statement expressing their respective commitments to work to cooperatively address issues of mutual interest within the Gillam area. The proposed Conawapa hydroelectric development is located in Fox Lake's traditional territory and Resource Management Area and in proximity to the Fox Lake communities in Gillam and Bird.

Fox Lake Chief George Neepin and Hydro President & CEO Bob Brennan sign a process agreement for the future Conawapa Generating Station in February 2007.



Strengthening Aboriginal Relationships

NORTHERN FLOOD AGREEMENT

Manitoba Hydro remains committed to resolving any project-related impacts to adversely-affected communities, including fulfilling its obligations under the 1977 Northern Flood Agreement (NFA). Efforts remain focused upon strengthening working relationships with Aboriginal peoples while finding fair and equitable ways to mitigate or compensate for project impacts. Of the five communities which were signatories of the NFA, four have reached comprehensive settlement agreements with Manitoba Hydro. The Corporation remains committed to resolving project-related impacts with the Cross Lake First Nation, including fulfilling its obligations from the NFA.

Throughout the year the Corporation continued to provide assistance for Cross Lake, such as shoreline maintenance and debris management on the Jenpeg Generating Station forebay. Observations from helicopter reconnaissance in the fall of 2006 indicated that all significant debris had been removed from the forebay, except where debris is necessary for ecological integrity, such as maintaining fish habitat.

Manitoba Hydro's programs and initiatives at Cross Lake include the provision of safe travel and navigation on the waterways – such as boat patrols, emergency response telecommunications systems, and the provision of water level forecasts. Support for dock installation in the spring, repair and maintenance during the summer, removal in the fall, and storage throughout the winter, are some other safety measures included.

In the winter, a network of 35 safe ice trails and a safe ice bridge were prepared and monitored by Manitoba Hydro, providing over 400 km of marked trails in the resource area.



The 128-megawatt Jenpeg Generating Station on the Nelson River at dusk.

SPIRIT OF THE EARTH AWARD RECIPIENTS HONOURED

Manitoba Hydro has sponsored the Spirit of the Earth Awards for five years to promote environmental awareness while recognizing the culture and history of Aboriginal people. The project or activity receiving the award must be planned or implemented by Aboriginal people, or non-Aboriginal people working in partnership with Aboriginal communities. This year, the 12 recipients received their awards in Thompson in conjunction with the local National Aboriginal Day event.



MANITOBA HYDRO SPONSORS MANITO AHBEE

In early November, Manitoba Hydro was a sponsor of the first Manito Ahbee – A Festival for all Nations, held at the MTS Centre in Winnipeg. The festival celebrates Aboriginal music and culture through a number of components including the Aboriginal Peoples Choice Music Awards – the highlight of the four-day event.

NORTHERN TRAINING INITIATIVE GATHERS MOMENTUM

The Northern Training Initiative that seeks to prepare northern Aboriginal workers for construction on the proposed Wuskwatim and Keeyask generating stations gathered momentum in the fiscal year. The program was designed for northern Aboriginal people to receive training in a broad range of skills over a five-year period.

The \$60-million program, which is being funded by Manitoba Hydro, Human Resources & Skills Development Canada, Indian and Northern Affairs, Western Economic Diversification, and the Province of Manitoba, is being administered by the Wuskwatim and Keeyask Training Consortium. The consortium is a legal entity consisting of the Nisichawayasihk Cree Nation, Tataskweyak Cree Nation, York Factory First Nation, Fox Lake Cree Nation, War Lake First Nation, Manitoba Keewatinowi Ininew Okimakanak, Manitoba Métis Federation, Manitoba Hydro, and the Province of Manitoba.

To date, approximately 1 300 trainees have received instruction in a range of skills. Training continued in the designated trades this year, which include carpentry, welding, electrical, ironwork, mechanical, and plumbing. In the non-designated trades, courses were offered for labourers, heavy equipment operators, and truck drivers.



Above: Recipients of this year's annual Spirit of the Earth Awards, held in Thompson.

Below: Manitoba Hydro's Gerry Rose and Chair Lisa Meeches present awards at the Manito Ahbee Festival in Winnipeg. (Photo courtesy of Scott Stephens)

Strengthening Aboriginal Relationships

NORTHERN HIGH SCHOOL INTERNSHIP PROGRAM

Manitoba Hydro staff successfully placed four students from Cross Lake into the Northern High School Internship Program this year. Work continues on a similar program to support the community of Norway House. Upon completion of 110 hours of non-paid work exposure, students have the opportunity for paid summer employment. The initiative supports students who are considering applying to Manitoba Hydro's Trades Training Programs.

PRE-PLACEMENT TRADES TRAINING

The Pre-Placement Trades Training Program provides up to 10 months of pre-placement academic upgrading and trades training for candidates who don't currently possess the requisite credentials to enter directly into Manitoba Hydro's trades programs.

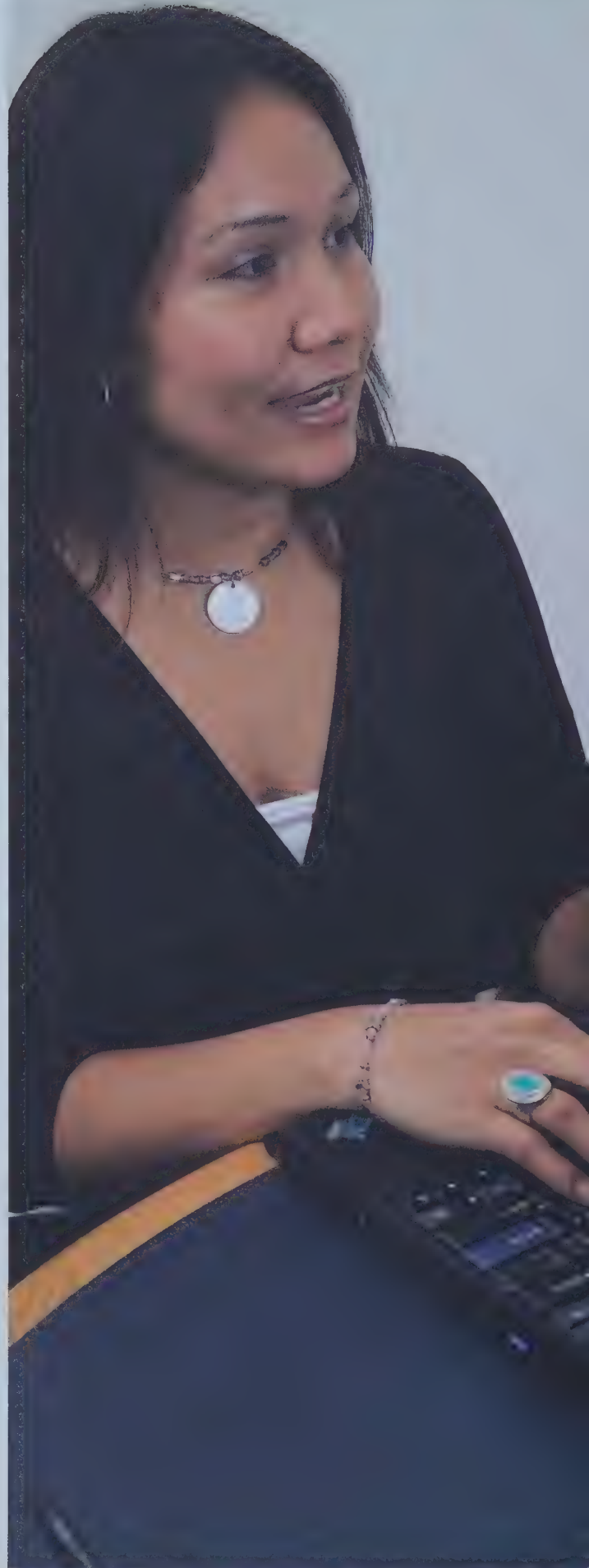
OFFICE IN ST. JAMES SOLD TO ASSEMBLY OF MANITOBA CHIEFS

A signing ceremony between Manitoba Hydro and the Assembly of Manitoba Chiefs (AMC) in August 2006 marked the sale of an office building in Winnipeg's St. James area to the Long Plain First Nation Trust. The new owners will take possession of the office at 480 Madison on July 1, 2007. The AMC plans to use the land to build a 160 000 square foot, \$40 million First Nation Governance House and Service Centre, scheduled to open in late 2008.

ABORIGINAL BUSINESS EDUCATION PROGRAM

Once again, Manitoba Hydro partnered with the Aboriginal Business Education Program at the University of Manitoba to support Aboriginal students in pursuit of their commerce degree. Five students were successful in the attainment of a Manitoba Hydro bursary.

Michelle Audy, a Human Resources commerce trainee.





KNOW YOUR HYDRO



UNIQUE OPPORTUNITIES FOR ALL MANITOBANS

Manitoba Hydro is an integral part of the communities it serves with offices and facilities located in every corner of the province – many in the north. Our community involvement goes beyond providing energy services. We support community-based initiatives and provide local employment opportunities throughout the province.



Television commercial from the *Know Your Hydro* public awareness campaign.



Manitoba Hydro takes its responsibility to the environment seriously, which is why environmental stewardship and the principles of sustainable development have been a part of the Corporation's strategic plan from its inception.

WE'RE THERE

LAKE STURGEON STEWARDSHIP

Lake sturgeon is a species of special significance and concern to Manitoba Hydro – they can be found in almost all Manitoba waters developed for hydroelectricity. Throughout the past year, the Corporation continued to be proactive in research, conservation, and enhancement activities related to the endangered fish.

This year, several University of Manitoba researchers, funded by Manitoba Hydro, discovered a large stock of juvenile sturgeon in the Winnipeg River between Seven Sisters and Slave Falls generating stations. These young sturgeon will be studied over the next several years to determine how they grow and what types of habitat they require. Additional sturgeon studies funded by the Corporation are being conducted in the field and in the lab to fill other gaps in sturgeon life-history knowledge.

Sturgeon fingerlings continue to be spawned at the Grand Rapids Hatchery – now owned by Manitoba Hydro – and the Jenpeg Generating Station for restocking by the Nelson River Sturgeon Co-Management Board. Educational materials were developed for the Saskatchewan River Sturgeon Management Board and support was given toward the establishment of a sturgeon board for the Winnipeg River.

In addition, Manitoba Hydro has installed special sturgeon tanks in its public entrances at Head Office in Winnipeg and at the Customer Service Centre in Thompson. These tanks contain young sturgeon and provide an engaging focal point for the public.

Lake sturgeon are an endangered species and of special significance to Manitoba Hydro as they can be found in almost all Manitoba waters developed for hydroelectricity.



Protecting the Environment

PLUG-IN HYBRID VEHICLE TESTED

In October 2006, Manitoba Hydro announced a research and development project to review the potential of plug-in hybrid electric vehicles and the possible impact that the new technology could have on future Manitoba Hydro electrical load growth and energy markets.

Manitoba Hydro converted one of its 2005 Toyota Hybrid Prius cars so that it has a battery pack that can be conveniently plugged in and charged at any standard 120-volt outlet. The higher capacity battery storage allows the plug-in hybrid to effectively run as an electric vehicle for the first approximately 50 kilometres. After that it will run as a conventional hybrid with its high efficiency gasoline range.

Manitoba Hydro will be monitoring the vehicle and evaluating data, such as voltage and current harmonics, ambient temperature, kilowatt-hour consumption and gasoline consumption. One aspect of interest to Manitoba Hydro in this research is battery performance in this province's cold weather conditions.

ENVIRONMENTAL PARTNERSHIP FUND

Since 1993, Manitoba Hydro's Environmental Partnership Fund has assisted environmental initiatives of many kinds in Manitoba, primarily from community-based not-for-profit organizations. Emphasis is placed on supporting environmental stewardship projects or those with a sustainable development focus.

In the fiscal year, about 30 such projects were assisted through funding or support in kind. A sampling includes: the Manitoba Envirothon Competition, sponsored annually with the Manitoba Forestry Association; continued support for the Green Kids Organization and its inter-active theatre program for youngsters in school settings; the Bishop Grandin Greenway Project in Winnipeg; assistance to the University of Manitoba's Faculty of Engineering "Engineers Without Borders Sustainable Development Competition"; and support for the Thompson Boys and Girls Club Sturgeon Aquarium Program.

President & CEO Bob Brennan and Hydro Minister Greg Selinger beside a plug-in electric hybrid vehicle.



WALLEYE SPAWNING ENHANCEMENT PROGRAM

Each spring since 1997, a seven-week spill at Grand Rapids Generating Station has been initiated in the spillway channel to support the Walleye Spawning Enhancement Program. The program's goal is to determine if a natural, self-sustaining walleye spawning population can be established within the spillway channel bed. The program is carried out with the participation of the Grand Rapids First Nation and the Grand Rapids Fisherman's Co-op. The federal Fisheries and Oceans and provincial Water Stewardship departments have also become involved with the program.

GILLAM HOMES BUILT TO POWER SMART STANDARDS

In early 2007, 10 new homes were built in Gillam to Power Smart energy-efficiency standards. Compared to their conventional counterparts, the homes will cut annual electricity consumption by 17.9 kilowatts and 91 400 kilowatt-hours. The houses are air-sealed and insulated to R-50 in attics and R-28 in walls, together with energy-efficient lighting and windows.

SOIL REMEDIATION

Ongoing soil remediation at several station and isolated sites throughout Manitoba Hydro's system took place this year. Some of the stations include Wabowden, Brochet, Dunlop (The Pas), Rorketon (Dauphin), South Indian Lake, and the natural gas station facility in Portage la Prairie.

A pelican at the Grand Rapids Generating Station.



Protecting the Environment

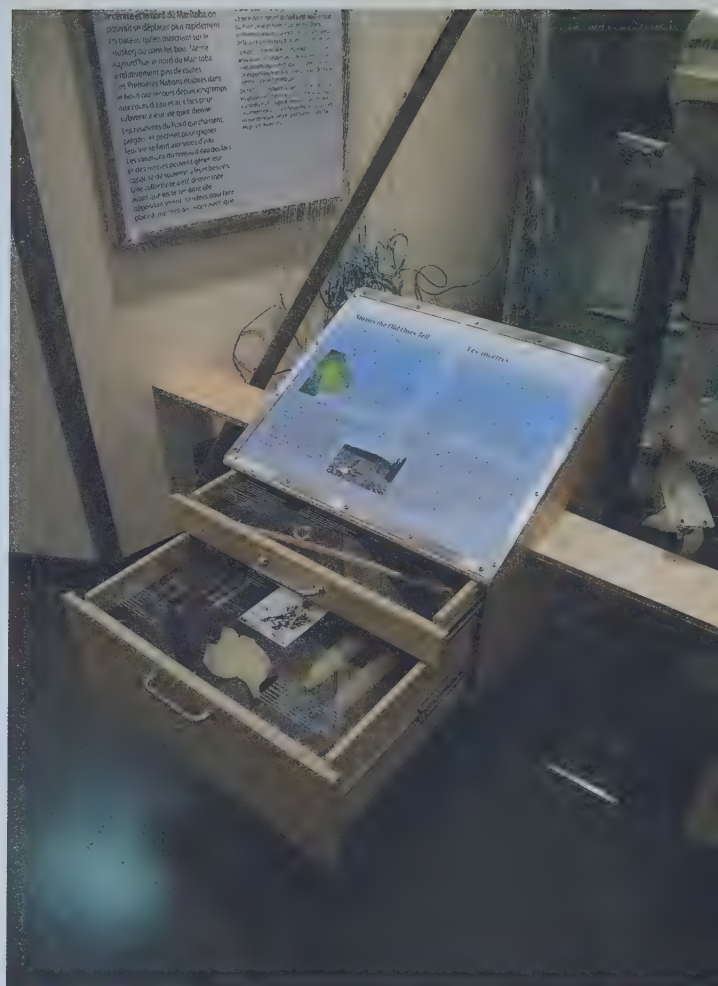
ARCHEOLOGICAL RESEARCH

Supporting archeological programs has been an established mitigation measure at Manitoba Hydro since the development of the Churchill River Diversion (CRD) and Lake Winnipeg Regulation (LWR) projects in the early 1970s.

The largest and longest-running program of this nature is the CRD Archeological Project. Started in 1973, the investigations and resulting artifacts have contributed significantly to the knowledge of the area and are now considered the most extensive boreal forest collection in the world.

In addition, archaeological research continued at Grand Rapids this year. The program was extended into a fourth year in 2006 to complete excavations at Chartier House, which belonged to the first Chief of Grand Rapids. The program also provided some employment opportunities for Aboriginal students to assist with the field work.

Replicas of a few ancient artifacts on display at the Manitoba Electrical Museum & Education Centre.



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COMMITMENTS TO REDUCE GREENHOUSE GASES

Manitoba Hydro has two types of voluntary commitments for reducing its greenhouse gas (GHG) emissions.

Under its participation in the Chicago Climate Exchange (CCX), the Corporation committed to progressively reducing its GHG emissions by four per cent of baseline emissions (defined as average emissions over the 1998 to 2001 period) in 2006. Manitoba Hydro is in full compliance with the CCX target and currently has a surplus.

The voluntary commitment originally established under the national Voluntary Challenge and Registry (VCR) program in 1998, commits Manitoba Hydro to reduce its average net GHG emissions to six per cent below 1990 levels (over the 1991 to 2007 period).

This commitment, along with Manitoba Hydro's GHG reporting, was recognized by the Pembina Institute as the best among Canadian utilities. At the end of 2006, Manitoba Hydro's average net GHG emissions were 27 per cent below the 1990 levels, well exceeding the voluntary commitment of a six per cent reduction.

The 343-megawatt thermal-electric Brandon Generating Station.



GREEN PROCUREMENT

One of the many ways Manitoba Hydro is being environmentally proactive is through green procurement. In 2006, all of the Corporation's purchasing staff completed training in environmentally responsible buying. At Manitoba Hydro, all new products are evaluated to determine how green they are before they're purchased. Some of the projects currently underway include a review of environmentally-friendly office supplies and a tender for janitorial services with options for using environmentally-responsible products.

DEMAND UNABATED FOR FOREST ENHANCEMENT PROGRAM

In 2006, the popular Forest Enhancement Program started its second decade of operations. In keeping with its mandate, the program offers non-profit urban organizations and rural communities the means to improve local parks and recreational areas of all kinds through education, awareness, and tree plantings. Locations typically include school grounds, sports fields, community orchards, camping areas, seniors' facilities, hospitals, churches, cemeteries, museums, and historic sites.

Since its inception, the Forest Enhancement Program has supported 636 tree plantings projects, forest education initiatives, and university-initiated research projects. Involvement with the Manitoba Forestry Association, the Manitoba Conservation Districts Association, and the Manitoba Model Forest organization has also increased.

MANITOBA HYDRO PARTNERS WITH SCHOOL DIVISION ON BIODIESEL

Manitoba Hydro continues to be an active promoter of renewable fuels and exclusively uses biodiesel blends at its fueling facility on Notre Dame Avenue in Winnipeg for fleet vehicles.

In February 2007, Winnipeg School Division #1 and the Manitoba Hydro office entered into a partnership to test biodiesel in four school buses. The Corporation agreed to fuel the buses for a test period running from February to June. If successful, the school division will implement biodiesel at its own site for use in all of its buses.

Straw is one of several waste materials that can be converted to bioenergy.



Skilled, Diverse, Innovative Employees

Manitoba Hydro's human resources represent a broad demographic spectrum with an enormous variety of skills, talents, and experience. Safety practices and standards for employees and customers remains the Corporation's number one priority. The Corporation is also committed to the principles of diversity and employment equity to eliminate and remedy any systemic disadvantages in employment opportunities.

WE'RE THERE

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A station operator-in-training at the Limestone Generating Station.

ACKNOWLEDGEMENTS AND RECOGNITION

Manitoba Hydro continued to be sought out and recognized by other organizations and employers for its employment equity practices – both within and outside the province. The Corporation was asked frequently to share its best practices and experiences regarding current and proposed employment equity initiatives and received many acknowledgements throughout the year.

Some of them include:

- > Recognized by the Interprovincial Association on Native Employment as a “Champion” of Aboriginal employment.
- > Manitoba Hydro’s President and CEO, Bob Brennan shared the Corporation’s Acquired Brain Injury model with community business leaders, encouraging them to follow the utility’s lead in employing people with disabilities. To date, five individuals have been successfully re-integrated into the workplace.
- > Manitoba Hydro was recognized by the National Educational Association of Disabled Students for its participation in the Job Search Strategies Forum for post-secondary students and recent graduates with disabilities.
- > The Canadian Electricity Association collected information from Manitoba Hydro’s Aboriginal employment initiatives and pre-placement programs into a presentation for the federal minister of Human Resource Development Canada.

SUBSIDIARY: MANITOBA HYDRO INTERNATIONAL

The marketing of Manitoba Hydro’s skills, knowledge, and human resources to developing countries throughout the globe has been taking place through the subsidiary known as Manitoba Hydro International (MHI) for 22 years. This year, MHI was involved with numerous initiatives overseas, once again focusing much of its attention on Africa.

Specific projects included management services to the Kenya Power and Lighting Company and distribution and metering services to eastern Nigeria. MHI advisors continued their work on the Artumas gas-to-power project in the economically depressed area of southern Tanzania – including new generation to supply the country’s rural electrification program. MHI assisted the World Bank with studies on regional power development options in the Nile Basin and the restoration of electricity systems there as well as rural electrification in post-conflict Liberia. In southern Africa, MHI experts assisted with the technical evaluation of the Cahora Bassa Hydropower and HVDC scheme for the governments of Portugal and Mozambique.

In Moldova, MHI continued to assist three separate electricity companies with the implementation of modern financial management information systems.



CULTURAL AWARENESS STRATEGY

A corporate-wide, multi-tiered Cultural Awareness Strategy provides opportunities to increase employee knowledge and understanding of the Aboriginal community and its members – as customers, as business partners, and as employees. Since 2005 Manitoba Hydro staff have been attending two-day workshops in Aboriginal cultural awareness. More than 580 employees participated in the past fiscal year.

RECRUITMENT PRACTICES

Manitoba Hydro has been praised for its recruitment practices in many respects. This year, recognizing the growing pool of talent in Manitoba's immigrant community, the Corporation implemented an Internationally Educated Engineers Career Development Program, which includes a bursary program, six co-op placements, and a two-year career development program.

BURSARIES AND SCHOLARSHIPS

Manitoba Hydro continued its support of youth and adult learners through an array of bursaries and scholarships. These initiatives are designed to encourage students to stay in school and enroll in studies that directly align with corporate careers. This year's program awarded over \$100 000 to students in support of their educational pursuits.

LOUIE TURNS 20!

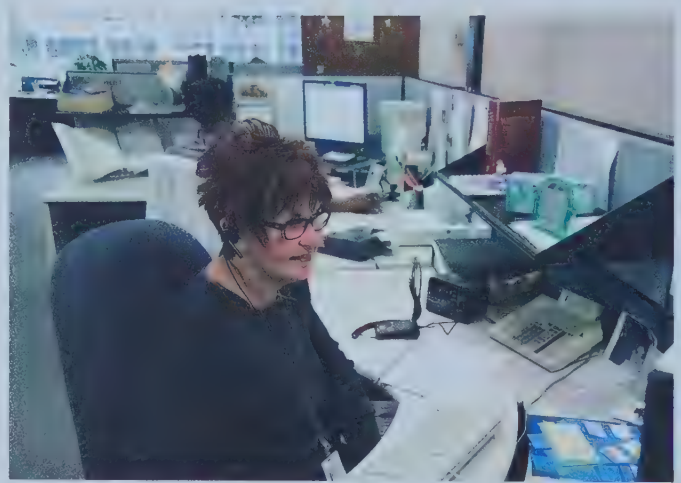
Louie the Lightning Bug has been promoting a safety message at Manitoba Hydro for 20 years. In addition to his Play It Safe Club – with almost 8 000 members – Louie made public appearances at 45 events throughout the province this year, including the Churchill Aurorafest, Royal Manitoba Winter Fair, Safe Kids Week celebrations as well as community safety events in Riverton, Flin Flon, Steinbach, and Norway House. Louie always has a number of safety games and promotional items to share with youngsters, all with the intent of helping them to Play It Safe Around Electricity!

Louie the Lightning Bug has advocated electrical safety to youngsters for over 20 years.

SCHOOL SAFETY PRESENTATIONS

Manitoba Hydro's safety and educational resources are considered part of the curriculum in many schools throughout the province. For over 25 years, safety presentations have been delivered to Grades 4 to 6 students. Presentations focus on key components of the science agendas, such as conductors and insulators, path to ground, and potentially hazardous situations. The presentations also build in seasonally appropriate electrical and natural gas safety messages such as snowmobile safety, school bus and vehicle safety, substations, padmount transformers, and Call Before You Dig.

With the assistance of Manitoba Hydro district personnel this year, over 400 school safety presentations were delivered to 14 776 students, which includes 21 presentations delivered in French to 665 students.





KNOW YOUR HYDRO

TRAINING, RESEARCH AND JOBS

From providing exposure to work opportunities, through student job placement, to specific training for a range of technical and trade positions, Manitoba Hydro is committed to developing the skills of all Manitobans.

The utility employs 5 600 people throughout Manitoba including over 1 100 in construction projects. We're the largest employer of engineers in the province and among the largest employers of accounting and finance professionals.

Newspaper ad from the *Know Your Hydro* public awareness campaign.

Manitoba Hydro's presence in the community goes far beyond its operational requirements. Every year the utility supports hundreds of events and special causes, ranging in magnitude from Brandon's Waterfall of Lights Christmas show to this year's Grey Cup Parade on Portage Avenue in Winnipeg. A long-standing point-of-pride in the organization is the ever-increasing number of employee volunteers associated with special events.



The Hydro wolf on Thompson's Spirit way features an inscription that reads, *The wolf symbolizes harmony with nature and this depiction of Pisew Falls serves as a graphic reminder of Manitoba Hydro's commitment to the environment and to the responsible use of its resources.*

OPENING CEREMONY FOR THOMPSON'S SPIRIT WAY

In September 2006, the City of Thompson hosted an opening ceremony for the Spirit Way, a development project that features a two-km sightseeing pathway, stretching from the Heritage North Museum to the Burntwood River and through the heart of downtown Thompson.

As part of its overall commitment to the project, Manitoba Hydro sponsored two points of interest along the walk. One is the official Wolf Mural Viewpoint, where the Corporation is recognized as the primary sponsor of the only Robert Bateman mural in the world. The massive wolf mural was painted on Thompson's Highland Tower last fall. Manitoba Hydro's other point of interest is the Burntwood River Viewpoint which highlights various features of the river and provides information on the Wuskwatim Generating Station being developed upstream. It also includes historical information about hydroelectric development in the north.

Manitoba Hydro's Glenn Schneider was on hand for the official opening of Thompson's Spirit Way.



POWER SMART WATERFALL OF LIGHTS

Manitoba Hydro was the title sponsor of the Power Smart Waterfall of Lights Winter Festival in Brandon. The kick-off took place at the beginning of December 2006 at Brandon's Riverbank Corridor Skating Oval with several hundred people attending the official "turn on the lights" ceremony.



FESTIVAL DU VOYAGEUR

Manitoba Hydro has been a longtime sponsor of the largest winter festival in western Canada. Held each year to celebrate Manitoba's Francophone and voyageur history, the Festival heats up Winnipeg every February for nearly two weeks. In 2007, Manitoba Hydro sponsored the Children's Maze area and the Cabane à sucre tent where Power Smart games were on-hand for the enjoyment of Manitoba's youth.

HUDSON BAY QUEST

The Corporation continued its sponsorship of the annual Hudson Bay Quest, a 400-km dog-sled race through the Hudson Bay coast's wild and barren lands – from Churchill to Arviat, Nunavut. The traditional dog sled race is a celebration of the history, heritage, and culture of dog sledding in northern Canada and recreates one of the historic fur-trade routes established centuries ago.

Pouring taffee at the Festival du Voyageur.



OLDEST FRIDGE CONTEST

In the fall of 2006 a contest was held by Manitoba Hydro, in conjunction with Dufresne Furniture, to find the oldest working refrigerator in Manitoba. The contest was an opportunity to remind Manitobans of the amount of energy that older refrigerators can consume and to highlight the savings that can be achieved with Energy Star® energy efficient models.

Out of 2 000 entry forms received, the oldest working refrigerator was a 1927 General Electric model. The antique refrigerator was taken to the Manitoba Electrical Museum & Education Centre where it has become a permanent addition.



**The owner of Manitoba's oldest working fridge,
Robert Arbuckle from Souris.**

SPECIAL OLYMPICS CANADA SUMMER GAMES

Over 1 000 athletes from across the nation participated in the Special Olympics Canada Summer Games in Brandon from July 18 to 22, 2006. Manitoba Hydro supported the games as a bronze sponsor and many of the utility's employees assisted by volunteering their time in a host of ways. The Corporation also partnered with Home Hardware and Special Olympics Manitoba to send provincial athletes to the games.



GREY CUP FESTIVAL

Winnipeg played host to the 2006 Grey Cup with Manitoba Hydro participating as a premier sponsor in the Grey Cup Festival and title sponsor of the Manitoba Hydro Grey Cup Parade. In November, over 100 000 people lined the streets of downtown Winnipeg to watch bands, cheer teams, and marvel at the creativity of over 120 floats. Four Manitoba Hydro floats were entered into the parade including the employee-volunteer built It's All About the Fans.



MANITOBA ELECTRICAL MUSEUM & EDUCATION CENTRE

One of Manitoba Hydro's premier attractions, the Manitoba Electrical Museum & Education Centre in Winnipeg, attracted nearly 7 000 visitors in its fifth year of operation. Since its inception, the museum has had two main objectives: to showcase the history of electrical development in the province and to educate children about electrical safety.

The largest event held at the museum this year was the Second Annual All That Glows: Then & Now exhibit. The exhibit attracted 2 700 visitors, providing them with a chance to see how holiday lighting trends in North America have changed from the use of candles to when the first string of electric lights appeared in the 1880s. Whether it was the colourful trees of the 1960s or the energy efficient LED light of today, visitors witnessed how – in some ways – lighting trends have come full circle.



Manitoba Hydro's Downtown Office

Construction at Manitoba Hydro's new head office building on historic Portage Avenue in downtown Winnipeg continued throughout the year. By year's end, concrete was being poured on the signature building's eighth floor.

Manitoba Hydro's 22-storey, 690 000 square foot downtown office building will be one of the most energy efficient, large-scale office towers on the globe and a world-class model of high energy-efficient building design in extreme climates. Selected as a 2006 winner of the Canadian Architect's Award for design excellence, the unique building is expected to achieve a 60 per cent energy saving compared to the Model National Energy Code for Buildings and is targeting a Gold Level certification under the LEED™ (Leadership in Energy and Environmental Design) green building criteria. This achievement will be realized by integrating a number of innovative energy efficient technologies and environmentally innovative techniques.

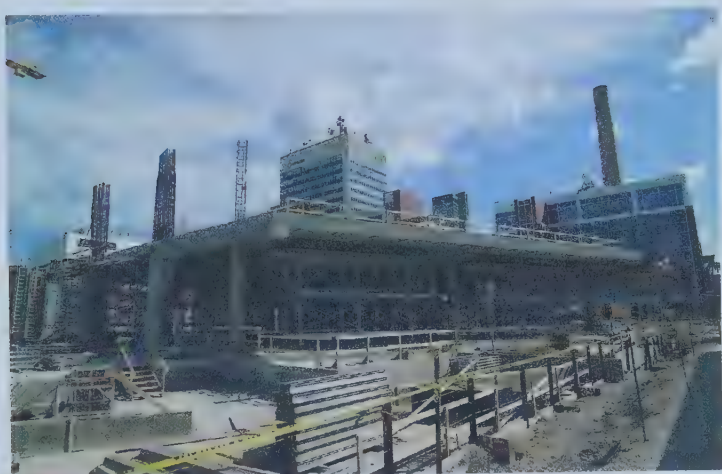
The building's form and orientation will maximize daylight and optimize passive systems for ventilation, heating, and cooling. All of these features will contribute to a healthy, productive workplace.

Specific energy-efficient design features include the building's orientation and mass, unobstructed floor plates and windows that maximize daylight and reduce artificial lighting, energy efficient lighting, a fully glazed double external wall to reduce heating and cooling requirements in extreme temperatures, a living "green" roof, and radiant heating and cooling.

Three and six-storey atriums will collect sunlight and provide conditioned fresh air year-round, while a solar chimney will enhance fresh air ventilation. Reflecting Manitoba's leadership position in geothermal energy installations, the building's primary heating and cooling system will be a closed-loop geothermal heat pump system.

The new head office occupies an entire city block on the south side of Portage Avenue between Edmonton and Carlton Streets. Connected to the downtown elevated walkway system, the structure will provide street level retail outlets and have a landscaped public courtyard on its southern exposure on Graham Avenue. The building will have a significant positive impact on downtown Winnipeg, bringing over 2 100 workers to one location.

Opposite page: From top, left to right: April 2006, May 2006, July 2006, October 2006, November 2006, January 2007, February 2007, March 2007.



Manitoba Hydro's Board issues this Disclosure Statement on an annual basis in its Annual Report. A Disclosure Statement is mandatory for companies whose shares are publicly traded so that shareholders can assess the company's governance. Although not mandatory for Crown Corporations such as Manitoba Hydro, issuance of a Disclosure Statement is consistent with best practices for corporate governance.

Manitoba Hydro models its approach to corporate governance on emerging best practices in Canada, the United States, and Great Britain, including recommendations from bodies such as the Manitoba Crown Corporations Council, The Conference Board of Canada, and Canadian Security Administrators.

The following summarizes Manitoba Hydro's approach:

STRATEGIC PLANNING

The Board sits as the planning committee for the Corporation and approves the Corporate Strategic Plan each year.

SUCCESSION PLANNING

The Human Resources Committee of the Board has responsibility for succession planning.

FINANCIAL FORECASTING

The Audit Committee of the Board reviews the Corporation's Integrated Financial Forecast and makes recommendations to the Board.

RISK MANAGEMENT

The Audit Committee of the Board approves the Integrated Risk Management plan developed and maintained by the Corporation.

INTERNAL CONTROLS

The Audit Committee of the Board meets at least four times per year and obtains opinions from external auditors, internal auditors, and management on the quality of internal controls.

CERTIFICATIONS

The Board ensures that certifications with respect to the accuracy of financial statements are provided by the CEO and CFO.

LEGAL COMPLIANCE

The Board reviews management's systems for ensuring legal compliance.

CONFLICT OF INTEREST

Conflict of Interest policies are in place for members of the Board, officers, and employees.

DIRECTOR ORIENTATION

Members of the Board receive orientation materials that are continually updated.

ETHICS AND SOCIAL RESPONSIBILITY

The Board reviews the Corporation's Code of Ethics, and ethics and social responsibility are considered in Board decisions.

DISCLOSURE OBLIGATIONS

Minutes of Board meetings are public, the Corporation's Annual Report and quarterly financial statements are tabled in the Legislature, and the Corporation is reviewed by the Crown Corporations Council and by a committee of the Legislature.



Manitoba Hydro's Long Sault Generating Station on the Nelson River.

The Management Discussion and Analysis (MD&A) reports on the financial results and operational performance of Manitoba Hydro for the year ended March 31, 2007. It should be read in conjunction with the consolidated financial statements and notes. The MD&A also provides an assessment of corporate risks and contains forward-looking statements regarding conditions and events which may affect financial performance in the future. Such forward-looking statements are subject to a number of uncertainties which may cause actual results to differ from those anticipated. To the extent known to management, risks and uncertainties have been quantified within reasonable ranges of materiality.

As a provincially-owned Crown Corporation, Manitoba Hydro's mandate is to provide for a continuance of a supply of energy to meet the needs of Manitoba consumers in the most efficient, economic, and environmentally sustainable manner. In fulfilling its mandate, Manitoba Hydro has established a number of goals with related measures and targets. In addition to a review of financial and operational performance for 2006-07, this MD&A reviews Manitoba Hydro's progress towards the attainment of corporate goals.

FINANCIAL OVERVIEW

Net income from consolidated electricity and natural gas operations was \$122 million for the fiscal year ended March 31, 2007, compared to the record earnings of \$415 million in the previous fiscal year. The reduction in consolidated net income was primarily attributable to a return to more normal water flows on Manitoba's major river systems compared to the exceptional water flow conditions that prevailed in the previous year. The reduced water flows resulted in reduced hydraulic generation and lower surplus energy available for sale in export markets.

The consolidated net income of \$122 million for the 2007 fiscal year was comprised of a \$121 million profit in the electricity sector and a \$1 million profit in the natural gas sector. The gas sector profit represented an improvement from a \$5 million loss incurred in the previous year. The improvement in the gas sector was mainly attributable to colder weather during the winter of 2006-07 compared to the previous year as well as to a 1% distribution rate increase implemented May 1, 2006.

FINANCIAL RESULTS - For the year ended March 31

	Electricity		Natural Gas		Consolidated	
	2007	2006	2007	2006	2007	2006
Revenues			<i>dollars are in millions</i>			
Manitoba (net of cost of gas sold)	1 040	1 001	129	120	1 169	1 121
Extraprovincial	592	827	-	-	592	827
	1 632	1 828	129	120	1 761	1 948
Expenses	1 511	1 408	128	125	1 639	1 533
Net income (loss)	121	420	1	(5)	122	415
Total assets	10 367	9 853	597	629	10 964	10 482
Total equity	1 386	1 265	21	20	1 407	1 285
Financial Ratios						
Debt: Equity					80:20	81:19
Interest coverage					1.23	1.77
Capital coverage					1.10	2.28

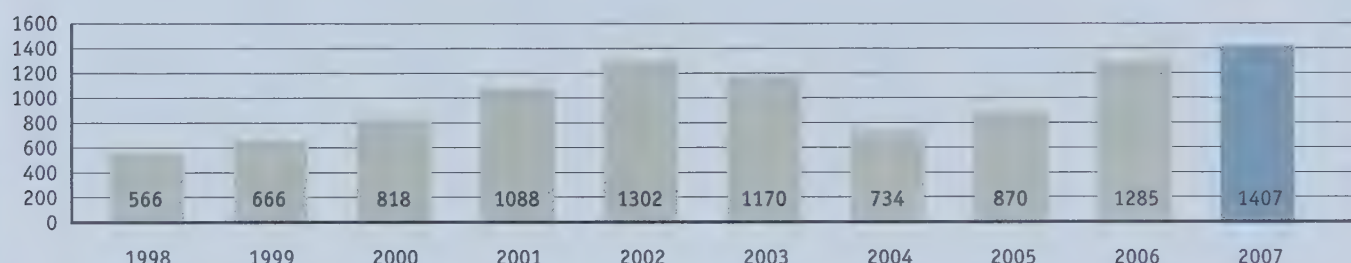
CONSOLIDATED RESULTS

Revenues from consolidated electricity and natural gas operations totaled \$2 140 million in 2006-07 compared to \$2 345 million in the previous fiscal year. After deducting cost of gas sold, which is a pass-through cost with no mark-up to customers by Manitoba Hydro, revenues amounted to \$1 761 million in 2006-07 compared to \$1 948 million in the previous year. The decrease in revenues of \$187 million was mainly the result of a \$235 million reduction in extraprovincial sales partially offset by a \$39 million increase in domestic electricity sales.

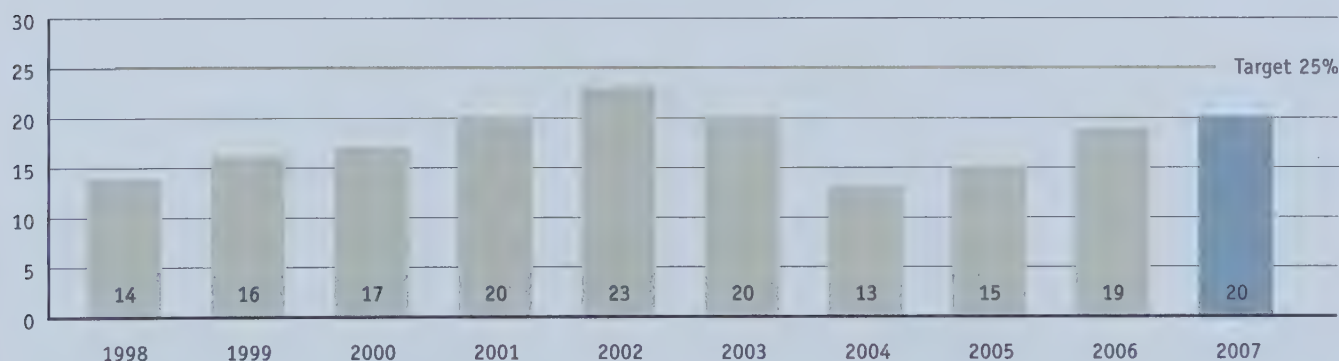
Expenses for electricity and gas operations totaled \$1 639 million in 2006-07 compared to \$1 533 million in the previous year. The \$106 million or 6.9% increase in total expenses was mainly attributable to an increase of \$101 million in fuel and power purchased as a result of lower hydraulic generation than the previous year.

Net income from electricity and natural gas operations totaled \$122 million in 2006-07 compared to \$415 million in the previous year. The current year net income increased the Corporation's retained earnings to \$1 407 million and improved the debt:equity ratio to 80:20 at March 31, 2007. The improvements in retained earnings and related equity ratio are depicted in the following charts:

RETAINED EARNINGS - For the year ended March 31
millions of dollars



EQUITY RATIO - For the year ended March 31
Percentage of equity to total debt plus equity



Financing

Cash provided from operations in 2006-07 was \$443 million, a \$267 million decrease from the previous year. The reduction was mainly due to lower receipts from export sales.

Proceeds from new financing arranged by the Corporation amounted to \$172 million in 2006-07. These proceeds were primarily used to fund HydroBond maturities and to refinance long-term inter-company advances.

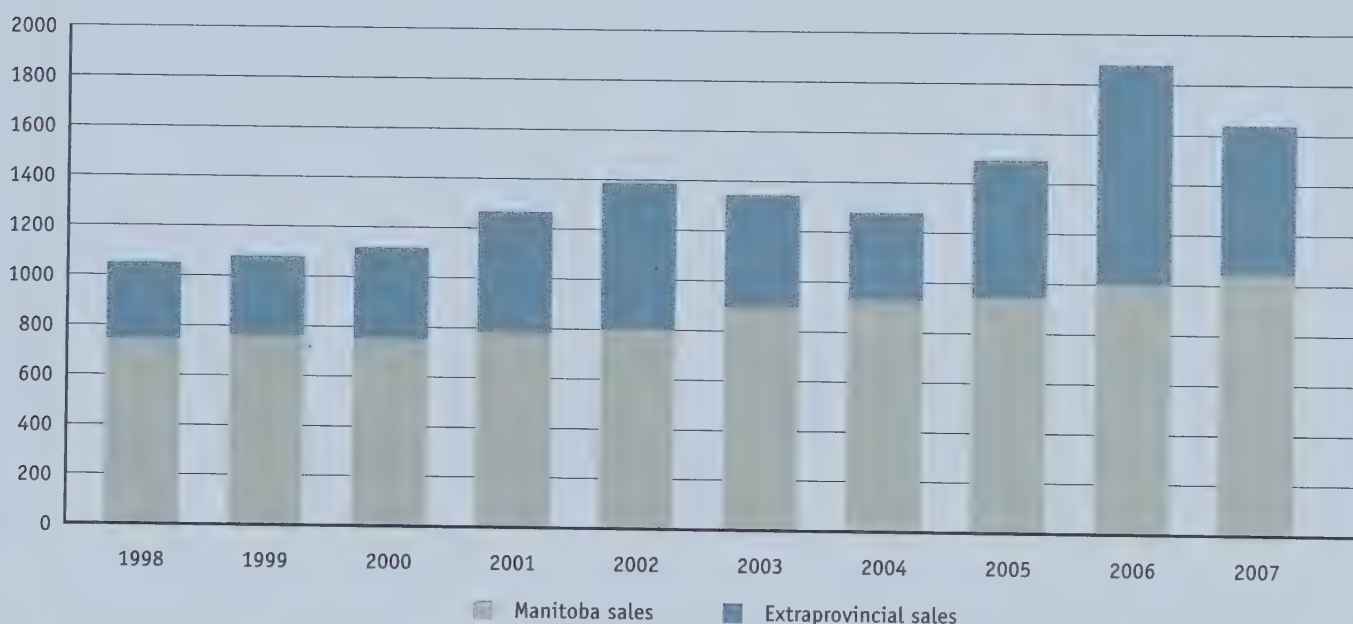
During 2006-07, the Corporation retired \$79 million of debt comprised of HydroBonds of \$77 million and Manitoba Hydro-Electric Board Bonds of \$2 million.

ELECTRICITY OPERATIONS

Electricity Revenues

Total revenues from electricity sales amounted to \$1 632 million in 2006-07, a decrease of \$196 million or 10.7% lower than the previous year. The decrease is a net result of a \$235 million reduction in extraprovincial sales and a \$39 million increase in domestic sales. The reduction in extraprovincial sales was due to the reduced hydraulic generation resulting from lower water flows than the previous year. The increased revenues from electricity sales in Manitoba were primarily due to increased growth in the residential, small, and medium general service sectors; and colder weather experienced during this year's heating season.

ELECTRICITY REVENUES - For the year ended March 31
millions of dollars



The breakdown of electricity sales in Manitoba by customer segment is as follows:

MANITOBA ELECTRICITY SALES - For the year ended March 31

	2007	2006	% change	2007	2006	% change
	<i>millions of dollars</i>			<i>billions of kWh</i>		
Residential	404	388	4.1	6.5	6.3	3.2
General service	363	353	2.8	6.5	6.2	4.8
Industrial	248	245	1.2	7.5	7.4	1.4
Other revenue	25	15	-	-	-	-
	1 040	1 001	3.9	20.5	19.9	3.0

MANITOBA ELECTRICITY REVENUE

For the year ended March 31, 2007



Residential	40%
General service	36%
Industrial	24%

MANITOBA kWh CONSUMPTION

For the year ended March 31, 2007



Industrial	36%
Residential	32%
General service	32%

Revenues from electricity sales in Manitoba increased to \$1 040 million from \$1 001 million, an increase of \$39 million or 3.9% from the previous year. Electricity consumption in Manitoba was 20.5 billion kilowatt-hours, 0.6 billion kilowatt-hours more than the 19.9 billion kilowatt-hours consumed in the 2005-06 fiscal year.

Revenue from sales to residential customers amounted to \$404 million in 2006-07, an increase of \$16 million compared to 2005-06. The change in sales was primarily due to increased usage as a result of colder weather experienced this year, especially in the third and fourth quarters. The number of residential customers increased by 4 453 during the year and totaled 450 823 at March 31, 2007.

Revenue from general service customers totaled \$363 million in 2007, an increase of \$10 million compared to the previous year. The change was mainly attributable to increased usage.

Revenue from large industrial customers increased \$3 million to \$248 million in 2006-07. The increase was primarily the result of production increases by several customers.

Extraprovincial revenues declined to \$592 million, \$235 million lower than record revenues reported in 2005-06. The decrease was primarily the result of lower volumes and rates for short-term sales into U.S. export markets. Volumes were down due to lower hydraulic generation and rates were down due to lower fuel costs in U.S. markets. Of the total extraprovincial revenues, \$507 million or 86% was derived from the U.S. market, while \$85 million or 14% was from sales to Canadian markets.

Management Discussion and Analysis

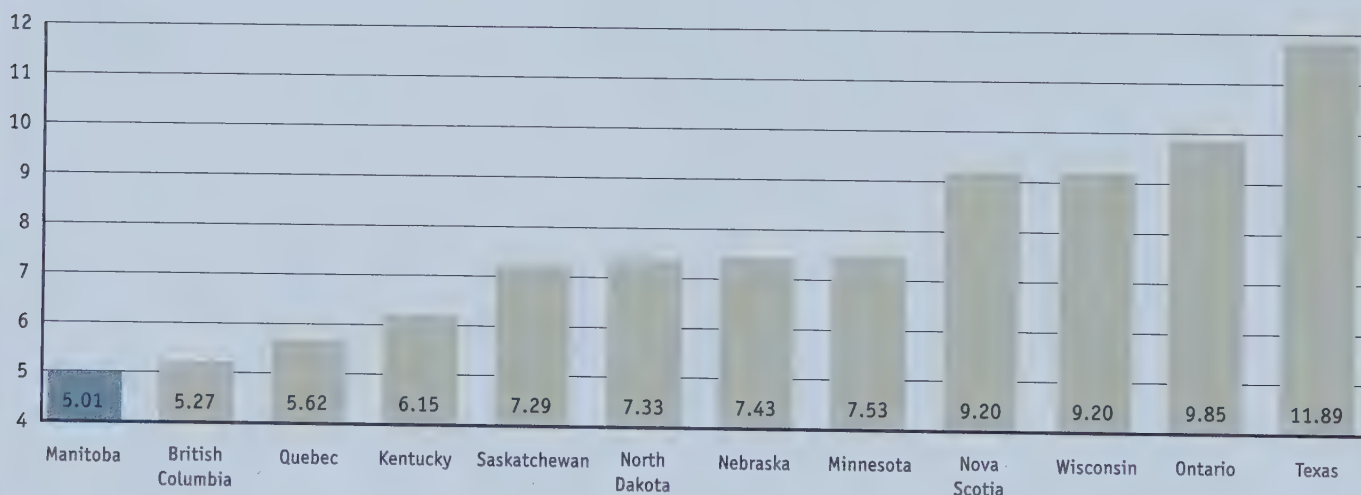
Retail Electricity Rates

Electricity rates for all customer classes (excluding area and roadway lighting) increased by 2.25% effective March 1, 2007. The rate increase was approved by the Public Utilities Board on an interim basis and is subject to confirmation at a rate hearing to be conducted during 2007-08.

Manitoba Hydro continues to have the lowest overall rate structure in North America. This is illustrated in the following chart which was excerpted from utilities' annual reports and United States Department of Energy publications.

RETAIL PRICE OF ELECTRICITY

cents/kWh

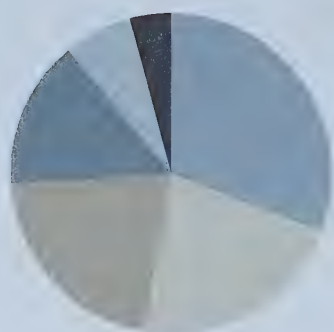


Electricity Expenses

Expenses attributable to electricity operations for 2006-07 were \$1 511 million, an increase of \$103 million or 7.3% higher than the previous fiscal year. The increase in expenses was largely due to increased fuel and power purchases of \$101 million, additional operating and administrative costs of \$10 million, and increased depreciation and amortization of \$11 million. These increases were partially offset by a reduction in water rentals of \$19 million.

ELECTRICITY EXPENSES - For the year ended March 31

	2007	2006	% change
		<i>millions of dollars</i>	
Operating and administrative	332	322	3.1
Finance expense	467	468	(0.2)
Depreciation and amortization	312	301	3.7
Water rentals and assessments	112	131	(14.5)
Fuel and power purchased	226	125	80.8
Capital and other taxes	55	54	1.9
Corporate allocation	7	7	-
	1 511	1 408	7.3



Finance expense	31%
Operating and administrative	22%
Depreciation and amortization	21%
Fuel and power purchased	15%
Water rentals and assessments	7%
Capital and other taxes	4%

Operating and administrative expenses are comprised primarily of labour, material, and overhead costs associated with operating, maintaining, and administering the facilities of the Corporation. In 2006-07, operating and administrative expenses amounted to \$332 million, an increase of 3.1% or \$10 million over 2005-06. Increased costs were mainly attributable to greater maintenance requirements on the generation, transmission, and distribution systems of the Corporation.

Finance expense totaled \$467 million in 2006-07, a decrease of \$1 million compared to the previous year. Higher interest rates on floating rate debt compared to the previous year contributed to an increase in the Corporation's weighted average interest rate from 8.10% in 2006 to 8.30% in 2007.

Depreciation expense increased by \$11 million or 3.6% to \$312 million this year. The increase was attributable to new additions to plant and equipment during the year.

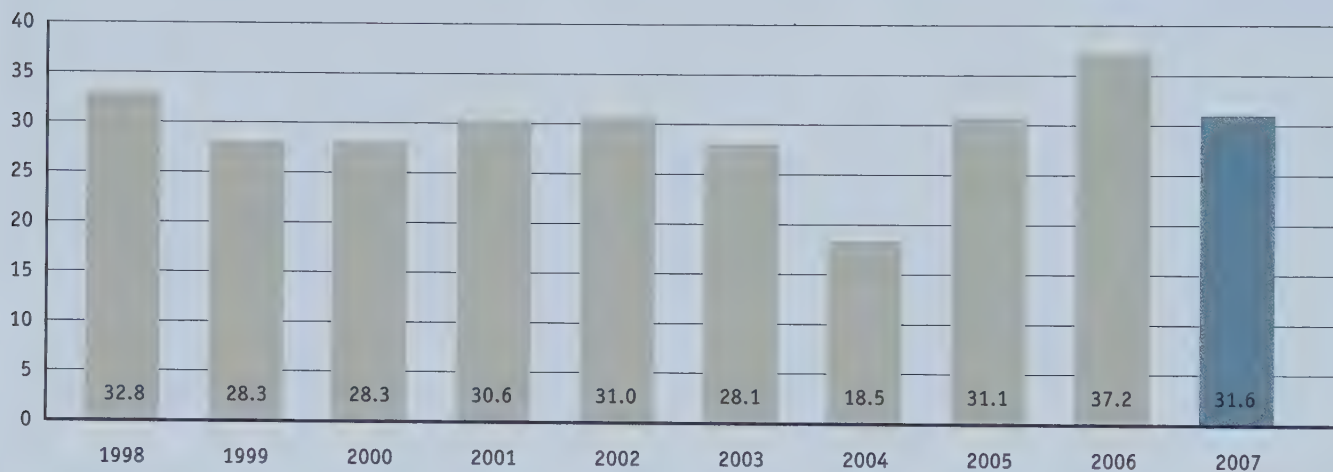
ELECTRICITY DEPRECIATION AND AMORTIZATION - For the year ended March 31

	2007	2006	% change
		<i>millions of dollars</i>	
Generation	90	92	(2.2)
Transmission	11	10	10.0
Stations	67	66	1.5
Distribution	78	74	5.4
Other	66	59	11.9
	312	301	3.7

Management Discussion and Analysis

Water rentals are paid to the Province of Manitoba for the use of water resources by Manitoba Hydro in the operation of its hydroelectric generating stations. The \$19 million decrease in water rentals reflects lower water flows on Manitoba's major river systems and a resulting decrease in hydraulic generation from the record level of 37.2 billion kilowatt-hours in 2005-06 to 31.6 billion kilowatt-hours in 2006-07.

HYDRAULIC GENERATION - For the year ended March 31 *billions of kWh*

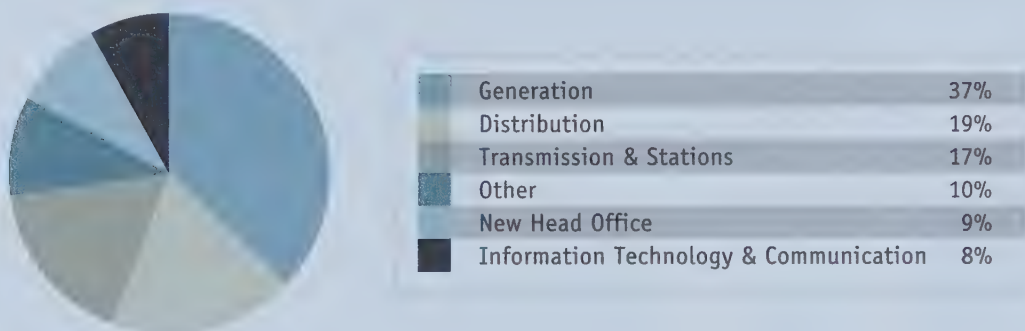


Fuel and power purchased amounted to \$226 million in 2006-07, an increase of \$101 million or 80.8% over the previous year. The increase in the cost of power purchases was primarily a result of increased volumes of power purchased to support firm contracts and increased market purchase rates.

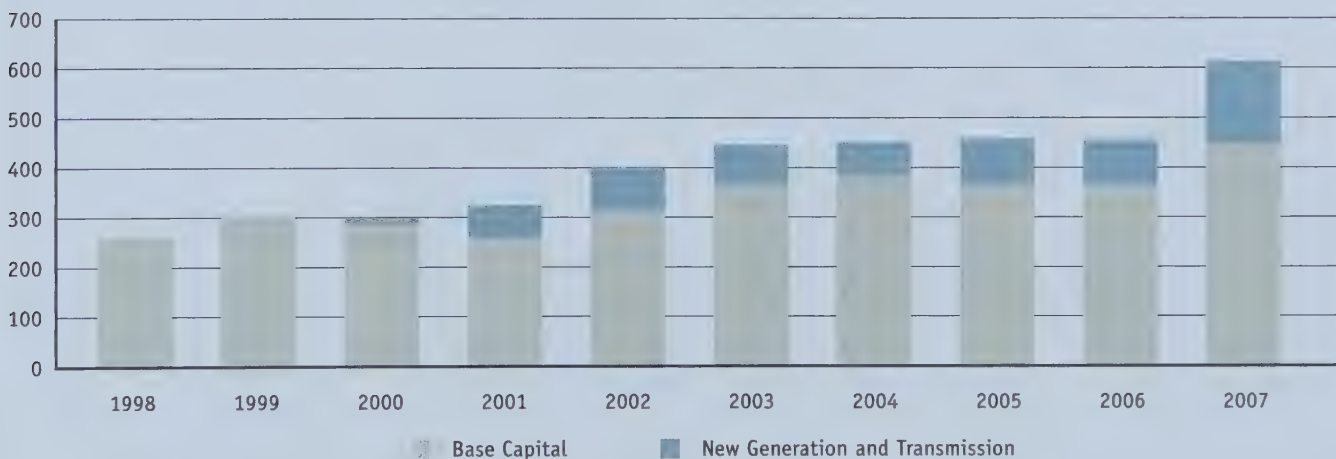
Electricity Capital Expenditures

Expenditures for capital construction totaled \$616 million in 2006-07 compared to \$462 million during the previous fiscal year. Generation capital expenditures of \$228 million included \$77 million related to Wuskwatim Generation and \$69 million related to future Conawapa and Keeyask generation facilities. Also included in generation capital expenditures was \$30 million for hydraulic generation system upgrades for Kelsey Generating Station. Transmission line and substation projects amounted to \$107 million. Distribution system additions and modifications to meet the service requirements of customers throughout the province were \$117 million. Expenditures for Manitoba Hydro's new downtown head office amounted to \$55 million during the year. New information technology development and expenditures on communication projects totaled \$49 million.

ELECTRICITY CAPITAL EXPENDITURES - For the year ended March 31, 2007



ELECTRICITY CAPITAL EXPENDITURES - For the year ended March 31 millions of dollars



Management Discussion and Analysis

NATURAL GAS OPERATIONS

Centra Gas (Centra) is a wholly-owned subsidiary of Manitoba Hydro. Centra distributes natural gas to 235 016 residential and 24 553 commercial and industrial customers in Manitoba.

Net income in the gas sector was \$1 million in 2006-07 compared to a net loss of \$5 million in the previous year. The improvement in the financial results over the previous year was primarily attributable to increased demand due to colder weather and a 1% general rate increase implemented on May 1, 2006.

Revenues from the sale and distribution of natural gas during 2006-07 were \$508 million, a decrease of \$9 million from the previous year. After deducting the cost of gas sold, which is a pass-through cost with no mark-up by Centra, net revenues amounted to \$129 million, an increase of \$9 million from 2005-06. This increase in net revenue is a reflection of colder weather than the previous year and a 1% general rate increase implemented on May 1, 2006. Natural gas deliveries were 2 056 million cubic metres in 2006-07 compared to 1 980 million cubic metres in 2005-06.

NATURAL GAS REVENUE

For the year ended March 31

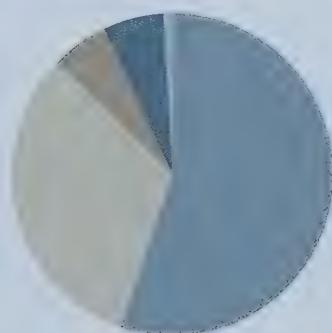
	2007	2006	% change
	<i>millions of dollars</i>		
Residential	280	275	1.8
Large general service	163	173	(5.8)
Large commercial & industrial	32	34	(5.9)
Interruptible	27	30	(10.0)
T-service and other	6	5	20.0
	508	517	(1.7)

NATURAL GAS DELIVERIES

For the year ended March 31

	2007	2006	% change
	<i>millions of cubic metres</i>		
Residential	710	665	6.8
Large general service	501	475	5.5
Large commercial & industrial	149	137	8.8
Interruptible	104	105	(1.0)
T-service and other	592	598	(1.0)
	2 056	1 980	3.8

NATURAL GAS REVENUE - For the year ended March 31, 2007



Residential	55%
Large general service	32%
Large commercial & industrial	6%
Interruptible	6%
Other	1%

NATURAL GAS DELIVERIES - For the year ended March 31, 2007



Residential	35%
T-service	29%
Large general service	24%
Large commercial and industrial	7%
Interruptible	5%

During the 2006-07 fiscal year, commodity rates passed through to natural gas residential customers decreased from 32 cents per cubic metre at the beginning of the year to 29 cents per cubic metre at year end.

In 2006-07 rates for natural gas supplied to residential customers changed on an annualized basis as follows:

May 1, 2006	0.7% increase
August 1, 2006	7.0% decrease
November 1, 2006	1.1% decrease
February 1, 2007	unchanged

Expenses attributable to the natural gas operations, excluding cost of gas sold, were \$128 million in 2006-07, an increase of \$3 million or 2.4% higher than the previous year. Increases of \$4 million in finance expense and \$1 million in operating and administration expenses were partially offset by decreases of \$1 million in depreciation and amortization and \$1 million in capital and other taxes. The increase in finance expense reflects an increase in short term debt due to higher cash requirements.

NATURAL GAS EXPENSES - For the year ended March 31

	2007	2006	% change
		<i>millions of dollars</i>	
Operating and administrative	54	53	1.9
Finance expense	22	18	22.2
Depreciation and amortization	18	19	(5.3)
Capital and other taxes	22	23	(4.3)
Corporate allocation	12	12	-
	128	125	2.4

NATURAL GAS EXPENSES - For the year ended March 31, 2007



Operating and administrative	42%
Capital and other taxes	17%
Finance expense	17%
Depreciation and amortization	14%
Corporate allocation	10%

Centra purchased 847 million cubic metres of natural gas based on monthly Alberta indexed pricing and 301 million cubic metres under daily Alberta indexed pricing. Centra also delivered natural gas on behalf of brokers to 46 273 (2006 - 54 750) customers receiving natural gas under Direct Purchase arrangements.

Natural Gas Capital Expenditures

Capital expenditures in the natural gas sector were \$29 million in 2006-07 compared to \$27 million for the previous fiscal year. The capital expenditure program reflects the continuing growth in new business, system improvement, and other expenditures to meet the needs of customers.

Management Discussion and Analysis

SUBSIDIARIES

In addition to Centra Gas, the Corporation has a number of wholly-owned subsidiaries involved in energy-related business enterprises for purposes of enhancing stakeholder service and value. Three of the most significant operating subsidiaries are:

Manitoba Hydro Utility Services Ltd. (MHUS) provides meter reading and related services to Manitoba Hydro and other utilities.

Manitoba HVDC Research Centre Inc. (HVDC) provides research and development services and products to the electrical power system industry.

Manitoba Hydro International Ltd. (MHI) provides professional consulting, operations, maintenance, and project management services to energy sectors world-wide, either exclusively or through partnerships.

The following table provides a summary of the financial results of the three subsidiary companies for 2006-07:

	MHUS	HVDC	MHI	Total
		<i>thousands of dollars</i>		
Revenues	4 981	4 050	6 600	15 631
Expenses	4 858	2 747	5 886	13 491
Net income	123	1 303	714	2 140

A fourth subsidiary, Meridium Power, is in the process of being wound down by Manitoba Hydro. Meridium Power was formed in 1998 to distribute large horsepower single phase motors and battery-free power protection systems for industrial and commercial applications. In 2006-07, Meridium Power's assets were written down in the total amount of \$1 million. Manitoba Hydro will continue to support Meridium's technology and products with its corporate expertise and resources.

WUSKWATIM POWER LIMITED PARTNERSHIP

The **Wuskwatim Power Limited Partnership (WPLP)** was formed to carry on the business of developing, owning, and operating the Wuskwatim Generating Station and related works, excluding the transmission facilities but including all dams, dikes, channels, excavations, and roads. An agreement was reached between Manitoba Hydro and Nisichawayasihk Cree Nation (NCN) on the development of the project on June 26, 2006. The WPLP has two limited partners, Taskinigahp Power Corporation (TPC) (owned beneficially by NCN) and Manitoba Hydro, and a General Partner which is a wholly owned subsidiary of Manitoba Hydro. The Wuskwatim Generating Station site is located at Taskinigahp Falls on the Burntwood River about 70 kilometers from Thompson, Manitoba.

CORPORATE GOALS

Manitoba Hydro's Corporate Strategic Plan is built upon its vision "to be the best utility in North America with respect to safety, rates, reliability, customer satisfaction, and environmental management and to always be considerate of the needs of customers, employees, and stakeholders." The following goals are among those that the Corporation strives to achieve in the pursuit of its Corporate vision:

Improve Safety in the Work Environment

Safety improvement is the Corporation's most important goal. Manitoba Hydro is committed to continuously improving its safety performance and is currently implementing a comprehensive safety management system for employees.

Provide Customers with Exceptional Value

Manitoba Hydro provides exceptional value to customers through low rates, a safe and secure system, high reliability and superior service.

Be a Leader in Strengthening Working Relationships with Aboriginal Peoples

Manitoba Hydro is one of the leading utilities in Canada with respect to Aboriginal representation in its workforce. The Corporation continues to place emphasis on building enduring working relationships with Aboriginal peoples through such measures as pre-employment training programs, purchasing and employment preferences, support for Aboriginal businesses, and recognition of cultural requirements in the workforce.

Improve Corporate Financial Strength

The Corporation has three primary financial targets: to enhance its financial strength, to contribute to rate stability and predictability, and to protect the Corporation and its customers from a variety of other risks. The financial targets are to maintain minimum levels for Interest and Capital Coverage and to attain a Debt/ Equity ratio adequate for the capital structure requirements of the Corporation.

Maximize Export Power Net Revenues

The ability to sell surplus energy into export markets has contributed significantly to low domestic rates in Manitoba. It is projected that export revenues will continue to be a significant proportion of Corporate revenues.

Have a Diverse Workforce that Reflects the Demographics of Manitoba

In addition to its leading performance in Aboriginal representation in the workforce, the Corporation has made significant progress in achieving employment equity targets for women, persons with disabilities, and visible minorities.

Be Proactive in Protecting the Environment

Through careful management of new and existing facilities and infrastructure, Manitoba Hydro continues to operate in an environmentally appropriate manner. Manitoba Hydro is dedicated to upholding the principles of sustainable development and to protecting the environment from adverse impacts.

Be a Leader in Implementing Energy Conservation Programs

Manitoba Hydro is recognized as a Canadian leader in promoting the wise and efficient use of energy through its Power Smart brand.

Management Discussion and Analysis

PERFORMANCE MEASURES

The following performance measures are among those utilized by the Corporation in measuring progress towards the achievement of its goals:

	MEASURE	TARGET	PERFORMANCE
Safety in the Work Environment	High-risk accidents	0	15
	Accident severity rate (per 200 000 hours worked)	<16	36.9
	Accident frequency rate (per 200 000 hours worked)	<0.8	1.8
Exceptional Value for Customers	Electricity rates	Lowest in North America	Lowest in North America
	Natural gas rates	Among the lowest in Canada	Mid-point in Canada
	Average electric customer outage time (minutes per customer per year)	<92	100.1
	Average electric customer outage frequency (outages per customer per year)	<1.3	1.2
	CEA Customer Service Index	Best in Canada	Best in Canada
Working Relationships with Aboriginal Peoples	% Aboriginal employment Corporate	12%	12.1%
	% Aboriginal employment Northern	37%	37.1%
Finance	Interest Coverage	>1.20	1.23
	Capital Coverage	>1.0	1.10
	Debt:Equity (by 2011-12)	75:25	80:20
Maximizing Export Revenues	Net export revenue as a % of total electric revenue (by 2015-16)	40%	21.4%
Diverse Work Force	Women	26%	24.9%
	Persons with disabilities	4.6%	4.0%
	Visible minorities	4.0%	4.1%
	Aboriginal peoples	12%	12.1%
Protecting the Environment	Environmental component of CEA Customer Service Index	≥8.5	8.1
	Net Greenhouse Gas Emissions (6% below 1990 levels)	<0.52 megatonnes	0.40 megatonnes
Energy Conservation	Energy saved per year (by 2017-18)	2 695 GWh	1 283 GWh
	Capacity saved (by 2017-18)	848 MW	460 MW

RISK MANAGEMENT

The Corporation manages all identified risks through a systematic, proactive, and integrated process designed to balance the following objectives:

- to identify threats that affect the achievement of the Corporation's mission and mandate;
- to mitigate the consequences of negative occurrences; and
- to take advantage of opportunities to provide benefits to all stakeholders.

All major risks are closely monitored and effectively managed by the Corporation through a systematic and coordinated process. Risk management activities include risk identification and assessment, risk monitoring, the establishment of risk tolerances, and risk mitigation. The risks of each of the Corporation's subsidiaries are also monitored and managed within the corporate risk management framework.

All identified risks are assessed for potential impact using financial, safety, reliability, environment, or customer value criteria. All major risks are quantified within reasonable ranges of materiality and are summarized in the following table:

RISK	POTENTIAL RANGE
Infrastructure	Greater than \$2.0 billion
Drought	Up to \$2.0 billion
Loss of export markets	Greater than 30% of revenue
Interest rates	Up to \$15 million
Foreign exchange rates	Up to \$10 million

Manitoba Hydro also maintains a Corporate Emergency Response Plan to ensure effective and coordinated responses to emergencies or disasters. The Emergency Response Plan also ensures that there is appropriate communication and coordination with other public authorities and emergency measure organizations.

Management Discussion and Analysis

OUTLOOK

Building on the positive financial performance for 2006-07, the expectation for 2007-08 is that hydraulic generation will be at normal levels and financial results will further improve. Precipitation across Manitoba Hydro's watersheds this past winter was above average which will help to replenish reservoirs after the low levels of precipitation experienced in the fall of 2006. With normal precipitation and steady growth in domestic energy demand, 2007-08 should be another favourable year for the Corporation with net income projected to be over \$170 million. In the absence of drought over the next few years and annual rate increases for electricity close to the rates of inflation, Manitoba Hydro can continue its recent progress in improving its financial strength. The recent world-wide move to control CO₂ emissions, such as those from thermal-electric generation, should help to enhance the value of Manitoba Hydro's clean energy exports in future years.

Manitoba's first wind farm, St. Leon Wind Energy, reached full commercial operation on June 17, 2006. Manitoba Hydro is purchasing the output of the facility under a 25 year power purchase agreement. A Request for Proposal for 300 MW of wind energy was released by Manitoba Hydro in March 2007. Indications are that there will be substantial interest shown by wind developers in building wind farms in Manitoba. To help facilitate this development, wind monitoring data collected by Manitoba Hydro over the past four years, and information related to land for which Manitoba Hydro has secured rights for wind power development, has been made available to potential wind power developers.

Manitoba Hydro is continuing with the strategic planning for future generation projects, including the Conawapa and Keeyask hydraulic generating stations on the Nelson River, and the major refurbishment/ rebuilding of the Pointe du Bois station on the Winnipeg River. Negotiations on the Joint Keeyask Development Agreement are progressing between Manitoba Hydro and the four First Nation partners: Tataskweyak, War Lake, Fox Lake, and York Factory. It is anticipated that the agreement will be finalized during 2007-08, setting the stage for future joint commitment to the Keeyask project based on an acceptable business case. A new north-south HVDC transmission line is planned to improve system reliability and to enhance the flow of power from the northern Nelson River generating stations to the primary southern markets. Construction work is projected to start within a few years.

On October 31, 2006, Northern States Power and Manitoba Hydro signed a Term Sheet that sets out the significant terms for a power purchase agreement and a seasonal diversity sale agreement both of which would commence in 2015 for a 10 year period for 375 MW of power. Detailed contract negotiations and U.S. regulatory procedures are underway.

High level discussions for the possible long-term sale of power for up to 2 000 MW of power to Ontario continued throughout the year. A sale of this magnitude would require the construction of major transmission facilities capable of carrying up to 2 000 MW of energy to load centres in Ontario.

Construction of Manitoba Hydro's head office building on Portage Avenue in downtown Winnipeg continued throughout the year. By year's end, concrete was being poured for the eighth floor. The 22-storey, 690 000 square foot building will be one of the most energy efficient office towers in the world, using approximately 60% less energy than the Model National Energy Code for Buildings. Completion of construction is scheduled for May 2008.

Power Smart will continue to build upon the solid foundation it has achieved in Manitoba for improving the energy efficiency of all customer groups through the delivery of messaging and programming to residential, commercial, and industrial customers. These efforts work towards making permanent shifts in the marketplace for long-term adoption of energy efficient technologies and practices. Power Smart efforts in all customer sectors combined are expected to achieve projected electric energy and demand savings of 2 695 GWh/year and 848 MW and projected natural gas savings of 101 million cubic metres by 2017-18. Manitoba Hydro's Power Smart initiative overall is expected to result in greenhouse gas emission reductions of nearly 2.0 million tonnes annually, while providing Manitoba participants with lower energy bills from reduced individual consumption and also through selling the conserved hydraulic energy on the export market.

MANAGEMENT REPORT

For the year ended March 31

The accompanying consolidated financial statements and all additional information contained in the Annual Report are the responsibility of management and have been approved by the Manitoba Hydro-Electric Board. The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, applied on a basis consistent with that of the preceding year. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgment regarding all necessary estimates and all other data available up to June 4, 2007. The financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management maintains internal controls to provide reasonable assurance that the assets of the Corporation are properly safeguarded and that the financial information is reliable, timely, and accurate. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its finding to management and to the Audit Committee of the Board.

The responsibility of the external auditors, Ernst & Young LLP, is to express an independent, professional opinion on whether the consolidated financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Audit Committee of the Board is comprised of five members, the majority of whom are members of the Manitoba Hydro-Electric Board. The Audit Committee of the Board meets with the external auditors, representatives of the Auditor General's Office, the internal auditors and management to satisfy itself that each group has properly discharged its respective responsibility and to review the consolidated financial statements before recommending approval by the Board. The Board reviews the Annual Report in advance of its release and approves its content and authorizes its publication.

On behalf of management:



R. B. Brennan, FCA
President and Chief Executive Officer,



V. A. Warden, CMA, FCMA
Vice-President,
Finance and Administration and Chief Financial Officer

Winnipeg, Canada
June 4, 2007

Auditors' Report

TO THE BOARD OF DIRECTORS MANITOBA HYDRO-ELECTRIC BOARD

We have audited the consolidated balance sheet of The Manitoba Hydro-Electric Board as at March 31, 2007 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Winnipeg, Canada,
June 4, 2007

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF INCOME

For the year ended March 31

	Notes	2007	2006
		<i>millions of dollars</i>	
Revenues			
Electric Manitoba		1 040	1 001
Extraprovincial	2	592	827
Gas Commodity		379	397
Distribution		129	120
		2 140	2 345
Cost of gas sold		379	397
		1 761	1 948
Expenses			
Operating and administrative		386	375
Finance expense	3	506	503
Depreciation and amortization		332	322
Water rentals and assessments	4	112	131
Fuel and power purchased		226	125
Capital and other taxes		77	77
		1 639	1 533
Net Income		122	415

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended March 31

	2007	2006
	<i>millions of dollars</i>	
Retained earnings, beginning of year	1 285	870
Net income	122	415
Retained Earnings, end of year	1 407	1 285

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

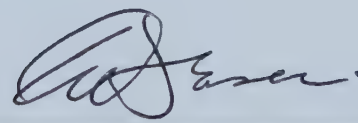
As at March 31

	Notes	2007	2006
<i>millions of dollars</i>			
Assets			
Property, Plant and Equipment			
In service	5	11 424	11 065
Less accumulated depreciation	5	3 924	3 657
		7 500	7 408
Construction in progress	5	915	602
		8 415	8 010
Current Assets			
Cash and cash equivalents		1	119
Accounts receivable and accrued revenue		426	421
Interest receivable		10	6
Materials and supplies, at average cost		117	159
		554	705
Other Assets and Deferred Charges			
Sinking fund investments	6	630	555
Pension assets	7	800	719
Deferred charges	8	457	385
Goodwill		108	108
		1 995	1 767
		10 964	10 482

Approved on behalf of the Board:



Victor H. Schroeder, QC
Chair of the Board



William Fraser, FCA
Chair of the Audit Committee

	Notes	2007	2006
		millions of dollars	
Liabilities and Retained Earnings			
Long-Term Debt			
Long-term debt net of sinking fund investments		6 192	6 496
Sinking fund investments shown as assets	6	630	555
	9	6 822	7 051
Current Liabilities			
Accounts payable and accrued liabilities	10	294	313
Notes payable	11	148	-
Accrued interest		138	110
Current portion of long-term debt	9	405	118
		985	541
Other Liabilities and Deferred Credits			
Deferred liabilities and credits	12	524	466
Pension obligation	7	663	606
Asset purchase obligation	13	228	236
Contributions in aid of construction		335	297
		1 750	1 605
Retained Earnings			
		1 407	1 285
		10 964	10 482

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended March 31

	Notes	2007	2006
		<i>millions of dollars</i>	
Operating Activities			
Cash receipts from customers		2 069	2 333
Cash paid to suppliers and employees		(1 095)	(1 126)
Interest paid		(563)	(530)
Interest received		32	33
		443	710
Financing Activities			
Proceeds from long-term debt		172	180
Sinking fund withdrawals		-	84
Retirement of long-term debt		(79)	(110)
Mitigation liability	16	(12)	(19)
Notes payable		147	(59)
Other		(1)	1
		227	77
Investing Activities			
Property, plant and equipment, net of contributions		(645)	(496)
Sinking fund payment		(100)	(103)
Other		(43)	(78)
		(788)	(677)
Net increase (decrease) in cash		(118)	110
Cash at beginning of year		119	9
Cash at end of year		1	119

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Consolidation - The consolidated financial statements include the financial statements of the Corporation and its subsidiaries. For purposes of consolidation, all significant intercompany accounts and transactions have been eliminated.

Rate Regulated Accounting - The prices charged for the sale of electricity and natural gas within Manitoba are subject to review and approval by the Public Utilities Board of Manitoba (PUB). The rate-setting process ensures that rates charged to electricity and natural gas customers recover costs incurred by Manitoba Hydro in providing electricity and gas service. Accordingly, Manitoba Hydro applies various accounting policies that differ from enterprises that do not operate in a rate-regulated environment. Such accounting policies allow for the deferral of certain costs or credits which will be recovered or refunded in future rates. These costs or credits would otherwise be included in the determination of net income in the year that the cost or credit is incurred. Manitoba Hydro refers to such deferred costs or credits as regulated assets or liabilities which are generally comprised of the following:

- **Deferred taxes** - Taxes paid by Centra Gas (July 1999) as a result of its change to non-taxable status on acquisition by Manitoba Hydro, have been deferred and are being amortized on a straight-line basis over a period of 30 years.
- **Acquisition costs** - Costs associated with the acquisition of Centra Gas (July 1999) and Winnipeg Hydro (September 2002) have been deferred and are being amortized on a straight-line basis over a period of 30 years.
- **Site restoration costs** - Site restoration costs incurred are recorded as a deferred expense and are amortized on a straight-line basis over 15 years.
- **Purchased gas variance accounts (PGVA)** - Accounts are maintained to recover/ refund differences between the actual cost of gas and the cost of gas incorporated into rates charged to customers as approved by the PUB. The difference between the recorded cost of natural gas and the actual cost of natural gas is carried as an account receivable/ payable, and recovered or refunded in future rates.
- **Power Smart programs (Gas)** - The costs of the Corporation's energy conservation programs for its natural gas operations are deferred and amortized on a straight-line basis over a period of 15 years.

Notes to the Consolidated Financial Statements

Manitoba Hydro's other significant accounting policies are as follows:

a) **Property, Plant and Equipment**

Property, plant and equipment is stated at cost which includes direct labour, materials, contracted services, a proportionate share of overhead costs and interest applied at the average cost of debt. Finance expense is allocated to construction until a capital project becomes operational or a decision is made to abandon, cancel or indefinitely defer construction. Once the transfer to in service property, plant and equipment is made, finance expense allocated to construction ceases, and depreciation and finance expense charged to operations commences.

b) **Depreciation**

Depreciation is provided on a straight-line remaining life basis. The major components of generating stations are depreciated over the lesser of the remaining life of the major component or the remaining life of the associated generating station.

The range of estimated service lives of each major asset category is as follows:

Generation	- Hydraulic	45 - 100 years
	- Thermal	25 - 75 years
Transmission	- Lines	40 - 85 years
	- Stations	20 - 53 years
Distribution (Electricity and Gas)		20 - 65 years

Provision for removal costs of major property, plant and equipment is charged to depreciation expense on a straight-line basis over the remaining service lives of the related assets. Retirements of these assets, including costs of removal, are charged to accumulated depreciation with no gains or losses reflected in operations. The estimated service lives and removal costs of the assets are based upon depreciation studies conducted periodically by the Corporation.

c) **Asset Retirement Obligations**

Asset retirement obligations are measured initially at fair value in the period in which the obligations are incurred, provided that a reasonable estimate of the fair value can be made. The present value of the retirement cost is added to the carrying amount of the related asset. In subsequent periods, the retirement cost is amortized over the useful life of the asset and the carrying value of the liability is increased to recognize increases in the liability's present value with the passage of time.

d) **Foreign Currency Translation**

Revenues and expenditures resulting from transactions in foreign currencies are translated into Canadian dollar equivalents at exchange rates in effect at the transaction dates except to the extent that revenues are used to hedge future long-term foreign debt obligations. In accordance with the Corporation's Exposure Management Program, revenues used as hedges are firm U.S. export revenues which are translated at the historical book value exchange rates of the respective U.S. debt obligations to which the firm revenues are linked and for which they, together, form an effective hedge. The maturity dates of U.S. debt obligations extend through 2023. For purposes of bridging the timing of U.S. debt maturities and the U.S. revenue streams used to hedge those debt maturities, the Corporation utilizes U.S. sinking funds and U.S. dollar forward contracts. The investment income from the U.S. sinking fund is retained within the Exposure Management Program to form part of the long-term debt obligation hedge.

Long-term monetary assets and liabilities denominated in U.S. currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. The exchange gains or losses resulting from the translation of monetary items that form part of the long-term debt obligation hedge are deferred to the period in which the respective U.S. long-term debt obligation is retired.

Current monetary assets and liabilities denominated in foreign currencies are translated into Canadian currency at the exchange rate prevailing at the balance sheet date. Any exchange gains and losses on the translation of current monetary assets and liabilities are credited or charged to finance expense in the current period.

e) **Employee Future Benefits**

Manitoba Hydro provides employee future benefits, including pension and other post-retirement benefits, to both existing and retired employees. Pension plans include the Civil Service Superannuation Board (CSSB) plan, three Centra Gas curtailed pension plans, and The Winnipeg Civic Employees' Benefits Board Program (EBBP).

The costs and obligations of pension and other post-retirement benefits are calculated by an independent actuary using the accrued benefit actuarial cost method and reflect management's best estimate of future compensation increases, service lives and inflation rates. Pension expense is comprised of the cost of pension benefits provided during the year plus the amortization of past service benefits and experience gains and losses net of expected returns on fund assets. Expected returns on fund assets are calculated using market related values based on a five year moving average approach. The unamortized present value of past service benefits and actuarially determined experience gains or losses are recognized in the financial statements as deferred assets or credits.

The Corporation utilizes the "corridor method" of amortizing actuarial gains and losses. The amortization of experience gains and losses is recognized only to the extent that the cumulative unamortized net actuarial gain or loss exceeds 10% of the greater of the accrued benefit obligation and the fair market value of plan assets at the beginning of the year. When required, the excess of the cumulative gain or loss balance is amortized over the expected average remaining service life of the employees covered by the plan.

Under the provisions of the CSSB plan, Manitoba Hydro is required to fund approximately 50% of pension payments made to retirees. In order to meet this obligation, Manitoba Hydro maintains a pension fund which is managed by the CSSB. All pension assets of the Manitoba Hydro Pension Fund (MHPF) are reflected at current market value on Manitoba Hydro's balance sheet. The assets relating to the Centra Gas curtailed pension plans are held in trust by the State Street Trust Co. of Canada and are not reflected on Manitoba Hydro's balance sheet. Pension and long-term disability expenses pertaining to the former Winnipeg Hydro employees are recognized at the time contributions are made to the EBBP which maintains the funds and obligations relating to these employees in its financial records.

Other employee benefits earned by employees include vacation, vested sick leave, severance and a retirement health spending plan. Where applicable, the future costs of these benefits are based on management's best estimates.

Notes to the Consolidated Financial Statements

- f) **Debt Discounts and Premiums**
Debt discounts and premiums are amortized to finance expense on a straight-line basis over the life of the respective debt.
- g) **Sinking Fund Investments**
The Corporation records sinking fund investments at par value. The difference between the cost and the par value of each investment is recorded as a premium or discount and is amortized on a straight-line basis over the remaining life of the investment. Any gain or loss on early disposal of investments is credited or charged to investment income.
- h) **Cash and Cash Equivalents**
Cash and cash equivalents include cash on hand and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- i) **Planning Studies**
The costs of planning studies related to uncommitted major generation or transmission facilities are deferred and amortized on a straight-line basis over 15 years. If there is reasonable assurance that a project will proceed to construction, any unamortized balance related to that project is transferred to construction in progress.
- j) **Power Smart Programs**
The costs of the Corporation's energy conservation programs, referred to as Power Smart, are deferred and amortized on a straight-line basis over a period of 15 years.
- k) **Revenues**
Customers' meters are read and billed on a cyclical basis. Revenues are accrued in respect of energy delivered for those cycles not yet billed.
- l) **Contributions in Aid of Construction**
Contributions are required from customers whenever the costs of extending service exceed specified construction allowances. Contributions are amortized on a straight-line basis over the estimated service lives of the related assets.
- m) **Cost of Gas Sold**
Cost of natural gas sold is recorded at the same rates charged to customers.
- n) **Derivative Financial Instruments**
The Corporation mitigates natural gas price volatility to customers through the use of derivative products restricted to price swaps, call options and cashless collars. The Corporation hedges up to 100% of its primary gas baseload volumes for up to twelve (12) months into the future. A stringent control environment is maintained to manage any risks related to the application of derivatives. Amounts paid or received under derivative financial instruments are recognized as part of the cost of gas sold.
- o) **Goodwill**
Goodwill represents the amount of the Corporation's investments in Centra Gas and Winnipeg Hydro over and above the fair market value of the net assets acquired. The goodwill balance is evaluated annually to determine whether any impairment has occurred. An impairment would be recognized if it was determined that the carrying value of the Corporation's investments in Centra Gas or Winnipeg Hydro exceeded the present value of the future cash flows from these investments. Should impairment occur, it would be recorded as a charge against operations in the year of impairment.
- p) **Use of Estimates**
The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements. Actual amounts could differ from those estimates, but differences are not expected to be material.

q) **Future Changes - Financial Instruments, Hedges and Comprehensive Income**

Commencing with the Corporation's 2008 fiscal year, the new recommendations of the Canadian Institute of Chartered Accountants for accounting for comprehensive income (Section 1530), for the recognition and measurement of financial instruments (Section 3855) and for hedges (Section 3865) will apply to the Corporation's financial statements. The new sections emphasize the use of fair value, rather than historical cost, as the basis for accounting for financial instruments. The Corporation is currently examining the impact that these new standards will have on its financial statements.

NOTE 2 EXTRAPROVINCIAL REVENUES

	2007	2006
	<i>millions of dollars</i>	
United States	507	654
Canada	85	173
	592	827

For U.S. revenues used for hedging purposes, the effective exchange rate for translation is based on the historical book value of the associated debt which is \$1.00 U.S. = \$1.232 Canadian (2006 - \$1.00 U.S. = \$1.232 Canadian). All other U.S. extraprovincial revenues were translated at exchange rates in effect at the transaction dates which resulted in an average effective exchange rate of \$1.00 U.S. = \$1.1309 Canadian (2006 - \$1.00 U.S. = \$1.1905 Canadian).

NOTE 3 FINANCE EXPENSE

	2007	2006
	<i>millions of dollars</i>	
Interest on debt	575	569
Interest allocated to construction	(37)	(33)
Investment income	(32)	(33)
	506	503

Included in interest on debt is \$71 million (2006 - \$68 million) related to the Provincial Debt Guarantee Fee. The fee during the year was 1.0% of the total outstanding debt guaranteed by the Province (2006 - 0.95%).

Investment income includes interest earned on U.S. and Canadian sinking funds established for the retirement of long-term debt. U.S. sinking fund interest income used for hedging purposes is recorded at the historical book value rate of the associated debt. The effective exchange rate for translation of this interest income is \$1.00 U.S. = \$1.232 Canadian (2006 - \$1.00 U.S. = \$1.232 Canadian).

Notes to the Consolidated Financial Statements

NOTE 4 WATER RENTALS AND ASSESSMENTS

	2007	2006
	<i>millions of dollars</i>	
Water rentals	105	124
Assessments	7	7
	112	131

Water rentals are paid to the Province for the use of water resources in the operation of the Corporation's hydroelectric generating stations. Water rental rates during the year were \$3.34 per MWh (2006 - \$3.34 per MWh).

NOTE 5 PROPERTY, PLANT AND EQUIPMENT

	2007			2006		
	millions of dollars					
	In service	Accumulated depreciation	Construction in progress	In service	Accumulated depreciation	Construction in progress
Generation						
- Hydraulic	4 391	1 346	560	4 334	1 285	353
- Thermal	504	226	5	494	202	4
Transmission						
- Lines	781	237	88	745	225	53
- Stations	2 174	900	82	2 094	829	83
Distribution	2 534	850	34	2 407	777	18
Other	1 040	365	146	991	339	91
	11 424	3 924	915	11 065	3 657	602

NOTE 6 SINKING FUND INVESTMENTS

Manitoba Hydro is legislated under the Manitoba Hydro Act to make annual sinking fund contributions to the Province of Manitoba of not less than 1% of the principal amount of the outstanding debt on the preceding March 31, and 4% of the balance in the sinking fund at such date. Contributions to the sinking fund during the year were \$100 million (2006 - \$103 million). Income earned on sinking fund investments is included with investment income for the year.

Sinking funds are invested in government bonds and the bonds of highly rated corporations and financial institutions.

	2007	2006
	<i>millions of dollars</i>	
U.S. investments	630	555
	630	555

U.S. investments have a weighted average term to maturity of 3.8 years (2006 - 4.8 years) and an effective yield to maturity of 4.3% (2006 - 4.1%). U.S. investments are translated into Canadian currency at the exchange rate prevailing at the balance sheet date, \$1.00 U.S. = \$1.15 Canadian (2006 - \$1.00 U.S. = \$1.17 Canadian).

NOTE 7 PENSION ASSETS AND OBLIGATION

Manitoba Hydro employees are eligible for pensions under the Civil Service Superannuation Board (CSSB) defined benefit plan that provides pension benefits based on years of service and on the average earnings of the 5 best years. The CSSB plan requires the Corporation to contribute approximately 50% of the pension disbursements made to retired employees. In addition, the former employees of Centra Gas are entitled to pension benefits earned under the Centra Gas curtailed pension plans. The former Winnipeg Hydro employees continue to earn benefits under the City of Winnipeg Civic Employees' Benefit Board Program (the EBBP) in which, upon the acquisition of Winnipeg Hydro, Manitoba Hydro became a participating employer. The EBBP is also a defined benefit plan that provides pension benefits based on years of service and on the average earnings of the 5 best years.

The Corporation's pension expense related to each of the pension benefit plans is as follows:

	CSSB plan		Centra Gas curtailed pension plans	
	2007	2006	2007	2006
	<i>millions of dollars</i>			
Current service cost	19	18	-	-
Administrative fees	2	2	-	-
Canada Pension Plan	11	10	-	-
Interest on obligation	41	39	5	4
Expected return on plan assets	(49)	(45)	(5)	(4)
Amortization of net experience loss	3	3	1	1
Amortization of transitional gain	(1)	(1)	-	-
	26	26	1	1

Pension expense for the former Winnipeg Hydro employees is equal to employer contributions to the EBBP in addition to employer remittances to the Canada Pension Plan. Total contributions to the EBBP during the year amounted to \$0.4 million (2006 - \$0.3 million) and reflect an employer contribution rate approximating 1.4% of pensionable earnings.

The most recent actuarial valuations for the Corporation's obligations under the CSSB and Centra Gas curtailed pension plans were performed with respect to the liabilities outstanding as at December 31, 2006. These valuations incorporated management's best estimate assumptions and took into consideration the long-term nature of the pension plans. The next actuarial valuations for all plans will occur in December 2007.

The Centra Gas curtailed pension plans are also subject to a solvency valuation for funding purposes with the latest valuation taking place as at December 31, 2006.

The significant actuarial assumptions adopted in measuring the Corporation's pension and other employee benefit obligations are as follows:

	2007	2006
Discount rate	6.50%	6.75%
Expected long-term rate of return on plan assets	7.5%	7.5%
Rate of compensation increase, including merit and promotions	1.5 - 2.0%	1.5 - 2.0%
Expected average remaining service life of employees	14 years	14 years
Long-term inflation rate	2.0%	2.0%

Notes to the Consolidated Financial Statements

The Corporation fully funds its pension obligation to employees. The CSSB manages the Corporation's pension fund (MH Pension Fund) on behalf of the Corporation.

The following tables present information concerning the MH Pension Fund and the Centra Gas curtailed pension plans:

	MH Pension Fund		Centra Gas curtailed pension plans	
	2007	2006	2007	2006
	<i>millions of dollars</i>			
Plan Assets at Fair Value				
Balance at beginning of year	719	615	68	59
Actual return on plan assets	81	104	7	9
Employer contributions	-	-	4	3
Benefit payments and refunds	-	-	(4)	(3)
	800	719	75	68
Accrued Benefit Obligation				
Balance at beginning of year	606	568	73	71
Interest on obligation	41	39	5	5
Current service cost	19	18	-	-
Benefit payments and refunds	(27)	(25)	(4)	(3)
Actuarial losses	24	6	3	-
	663	606	77	73
Surplus (deficit) at end of year	137	113	(2)	(5)

Pension assets are valued at market rates and are invested as follows:

	MH Pension Fund fair value		Centra Gas curtailed pension plans fair value	
	2007	2006	2007	2006
	<i>millions of dollars</i>			
Equities	470	410	47	42
Bonds and debentures	243	229	25	23
Real estate	74	60	2	2
Short-term investments	13	20	1	1
	800	719	75	68

The return on pension fund assets for the MH Pension Fund was 11.4% (2006 – 17.0%). The return for the Centra Gas curtailed plan fund assets was 10.8% (2006 – 16.4%).

The weighted average term to maturity on fixed income investments is 8.5 years (2006 – 8.2 years).

NOTE 8 DEFERRED CHARGES

	2007	2006
	<i>millions of dollars</i>	
Debt discount and expense	16	8
Premium on purchase of sinking fund investments	34	23
Power Smart programs - electric	123	95
Contract receivables	60	51
Affordable Energy Fund (Note 17)	34	-
Planning studies	28	63
Employee future benefits	20	27
Advances to TPC (Note 18)	14	-
Regulated assets:		
Deferred taxes	40	41
Site restoration costs	38	31
Acquisition costs	26	26
Power Smart programs - gas	11	4
Other	13	16
	457	385

If the Corporation were not subject to rate regulation, the costs associated with the regulated assets would be charged to operations in the period that they were incurred and net income for 2007 would have been reduced by \$13 million (2006 - \$9 million).

In total, deferred charges of \$56 million (2006 - \$55 million) were amortized to operations during the period.

NOTE 9 LONG-TERM DEBT

The Corporation arranged long-term financing in the amount of \$173 million (2006 - \$180 million) of which Provincial advances were arranged for \$50 million with a fixed coupon rate of 4.5%, Manitoba HydroBonds were issued for \$116 million with a weighted average yield of 4.4% and a Manitoba Hydro-Electric Board Bond was issued in the amount of \$7 million with a fixed coupon rate of 7.1%.

	2007	2006
	<i>millions of dollars</i>	
Advances from the Province of Manitoba represented by debenture debt of the Province	6 640	6 625
Manitoba HydroBonds	386	347
Manitoba Hydro-Electric Board Bonds	201	197
	7 227	7 169
Less: Current portion of long-term debt	405	118
	6 822	7 051

Included in the current portion of long-term debt are \$333 million (2006 - \$106 million) of debt maturities and \$72 million (2006 - \$12 million) of floating rate Manitoba HydroBonds with a maturity date in 2011. Floating rate Manitoba HydroBonds are redeemable at the option of the holder.

Long-term debt, excluding Manitoba Hydro-Electric Board Bonds issued for mitigation projects in the amount of \$57 million (2006 - \$50 million), is guaranteed by the Province of Manitoba.

Notes to the Consolidated Financial Statements

Debt principal amounts and related yields are summarized by fiscal years of maturity in the following table:

	<i>millions of Canadian dollars</i>				2007	2006
Years of Maturity	Canadian	Cdn Yields	U.S.	U.S. Yields	Total	Total
2008	405	4.4%	-	-	405	264
2009	-	-	284	5.9%	284	288
2010	186	5.4%	285	5.7%	471	446
2011	4	4.1%	-	-	4	4
2012	15	4.6%	-	-	15	-
	610	5.4%	569	5.6%	1 179	1 002
2013-2017	1 062	5.8%	390	7.0%	1 452	1 458
2018-2057	2 751	7.3%	1 845	7.6%	4 596	4 591
	4 423	7.0%	2 804	7.4%	7 227	7 051

U.S. debt is translated into Canadian currency at the exchange rate prevailing at the balance sheet date, \$1.00 U.S. = \$1.15 Canadian (2006 - \$1.00 U.S. = \$1.17 Canadian).

NOTE 10 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2007	2006
	<i>millions of dollars</i>	
Accounts payable	285	272
Regulated liabilities:		
Purchased gas variance accounts	9	41
	294	313

The Corporation passes all costs related to the purchase and transportation of natural gas onto its customers without markup. If the Corporation were not subject to rate regulation, the purchased gas variance accounts would not be maintained and the actual cost of gas would be expensed in the period incurred. If actual gas costs were expensed and sales rates were not adjusted accordingly, net income would have decreased by \$32 million (2006 - increased by \$15 million).

NOTE 11 NOTES PAYABLE

	2007	2006
	<i>millions of dollars</i>	
Canadian notes	148	-
	148	-

Notes payable at March 31, 2007 had a weighted average term to maturity of 40 days at a weighted average rate of 4.2% (2006 - no notes payable outstanding). The Corporation has bank credit facilities that provide for overdrafts and notes payable up to an amount of \$500 million denominated in Canadian and/or U.S. currency.

NOTE 12 DEFERRED LIABILITIES AND CREDITS

	2007	2006
	<i>millions of dollars</i>	
Deferred foreign exchange	149	127
Mitigation liability (Note 16)	132	121
Employee future benefits, excluding pensions	126	112
Refundable advances from customers	35	30
Affordable Energy Fund (Note 17)	34	-
Asset retirement obligations	30	29
Non-controlling interest (Note 18)	15	-
Interest income and other credits	3	47
	524	466

Asset retirement obligations have been recognized for the decommissioning of the Corporation's two thermal generating stations, and for the removal and disposal of polychlorinated biphenyl contaminated fluid in HVDC converter station capacitors. The Corporation estimates that the undiscounted cash flows required to settle the asset retirement obligations are approximately \$65 million, \$16 million of which will be incurred between March 31, 2007 and March 31, 2010 for polychlorinated biphenyl contaminated oil removal and disposal. The balance of \$49 million is expected to be incurred in 2024 as part of the decommissioning of Manitoba Hydro's two thermal generating stations. No funds are being set aside to settle the asset retirement obligations.

NOTE 13 ASSET PURCHASE OBLIGATION

Effective September 3, 2002, the Corporation acquired the net assets of Winnipeg Hydro from the City of Winnipeg. The Asset Purchase Obligation represents the net present value of payments to the City of Winnipeg of \$20 million per annum in years 2007 to 2010, and \$16 million per annum in year 2011 and each year thereafter in perpetuity.

NOTE 14 FINANCIAL INSTRUMENTS

Derivative Financial Instruments

The Corporation has entered into cashless collar contracts until January 2008 to purchase 26 030 000 gigajoules (gj) of natural gas at a weighted average lower strike price of \$7.45/gj. The weighted average forward price per the Alberta Energy Company Exchange (AECO) at March 30, 2007 was \$8.14/gj.

These contracts will be recorded in the month the natural gas is delivered. At March 31, 2007, the valuation of these contracts showed a negative fair value of \$1.4 million (2006 negative fair value of \$25 million). There were no unrecognized financial liabilities relative to these contracts.

Fair Value

The estimated fair values of the Corporation's long-term debt and sinking fund investments are based on year-end market interest and exchange rates for similar debt and investment instruments. As at March 31, 2007, the estimated fair value of the Corporation's total long-term debt amounted to \$8 807 million (2006 - \$8 733 million). The estimated fair value of sinking fund investments, which the Corporation uses for the purpose of repaying long-term debt, amounted to \$659 million at March 31, 2007 (2006 - \$565 million).

The carrying values of all other financial assets and liabilities approximate fair value.

Foreign Exchange Risk

As at March 31, 2007, there were foreign exchange contract purchases of \$90 million U.S. at a weighted average exchange rate of \$1.10 (2006 - \$193 million U.S. at a weighted average exchange rate of \$1.15) and £1 million U.K. at a weighted average exchange rate of \$2.28 (2006 - £4 million U.K. at a weighted average exchange rate of \$2.17) and foreign exchange contract sales of \$6 million U.S. at a weighted average exchange rate of \$1.15 (2006 - \$0 million). At March 31, 2007, the valuation of the foreign exchange contracts showed a positive fair value of \$4 million (2006 - \$2 million).

Cross currency swap arrangements transacted by the Province of Manitoba (the Province) on the Corporation's behalf are utilized to manage exchange rate exposures and as a means to capitalize on favorable financing terms in either U.S. or Canadian capital markets. Cross currency agreements represent an exchange of principal and/or interest flows denominated in one currency for principal and/or interest flows denominated in another. Such transactions effectively amend the terms of the original debt obligation with the Province with the swapped debt arrangement.

Interest Rate Risk

Interest rate risk is associated with notes payable net of temporary investments, the current portion of long-term debt net of the current portion of sinking fund investments, and floating rate long-term debt which totaled \$1 558 million at March 31, 2007 (2006 - \$1 074 million). For information purposes, an increase of 1% in the interest rate would reduce net income by \$15 million for the year ended March 31, 2007 (2006 - \$11 million).

Interest rate swap agreements transacted by the Province on the Corporation's behalf are utilized to manage the fixed and floating interest rate mix of the total debt portfolio, interest rate exposure, and related overall cost of borrowing. Interest rate swap agreements represent an agreement between two parties to periodically exchange payments of interest without the exchange of the principal amount upon which the payments are based. The Province may also enter into forward start interest rate swap arrangements where the agreement to exchange interest payments commences at some future date. In either swap arrangement, the terms of the debt advanced by the Province to the Corporation are amended by the swap.

Credit Risk

Credit risk on sinking fund investments, pension assets, and short-term investments is minimized as the Corporation invests exclusively in government-guaranteed bonds, highly rated investments or well diversified investment portfolios. The majority of the Corporation's accounts receivable are owing from domestic consumers who are in diversified industries and from sales to other utilities. Credit risk in the export market is minimized through the application of established credit requirements.

Credit risk associated with counterparties is minimized by establishing minimum credit rating requirements, setting potential exposure limits and monitoring exposure against these limits, and when necessary, obtaining financial assurances from counterparties.

NOTE 15 COMMITMENTS AND CONTINGENCIES

Manitoba Hydro has energy purchase commitments of \$1 301 million (2006 - \$682 million) that relate to future purchases of natural gas (including transportation and storage contracts), coal and wind energy. Commitments are primarily for natural gas purchases, the majority of which expire in 2009. In addition, other outstanding commitments, principally for construction, are approximately \$213 million (2006 - \$98 million).

The Corporation will incur future costs associated with the assessment and remediation of contaminated lands and facilities, and for the phase-out and destruction of polychlorinated biphenyl contaminated mineral oil from electrical equipment. Although these costs cannot be reasonably determined at this time (except for items already recognized as Asset Retirement Obligations), a contingent liability exists.

Due to the size, complexity, and nature of Manitoba Hydro's operations, various legal and operational matters are pending. It is not possible at this time to predict with any certainty the outcome of these matters. Management believes that any settlements related to these matters will not have a material effect on Manitoba Hydro's consolidated financial position or results of operations.

NOTE 16 MITIGATION

The Corporation is party to an agreement dated December 16, 1977, with Canada, the Province of Manitoba, and the Northern Flood Committee Inc., representing the five First Nations in the communities of Cross Lake, Nelson House, Norway House, Split Lake and York Landing. This agreement, in part, provides for compensation and remedial measures necessary to ameliorate the impacts of the Churchill River Diversion and Lake Winnipeg Regulation projects. Comprehensive settlements have been reached with all communities except Cross Lake.

Expenditures incurred or settlements reached to mitigate the impacts of all projects amounted to \$17 million during the year (2006 - \$28 million). In recognition of future anticipated mitigation payments, the Corporation has recorded a liability of \$132 million (2006 - \$121 million).

The Corporation has also entered into agreements with the Province of Manitoba whereby the Corporation has assumed obligations of the Province with respect to certain northern development projects. The Corporation has assumed obligations totaling \$143 million for which water power rental charges were fixed until March 31, 2001. The obligations outstanding at March 31, 2007 amounted to \$13 million (2006 - \$17 million).

To March 31, 2007, \$616 million (2006 - \$599 million) has been recorded to mitigate and compensate for all project-related impacts. There are other mitigation issues, the outcomes of which are not determinable at this time. However, in total, such other mitigation issues are not considered to be significant.

Notes to the Consolidated Financial Statements

NOTE 17 AFFORDABLE ENERGY FUND

In June 2006, the Legislative Assembly of Manitoba enacted the Winter Heating Cost Control Act (the Act) which, in part, requires that Manitoba Hydro establish an Affordable Energy Fund (the Fund) for the purpose of providing support for programs and services that:

- (a) encourage energy efficiency and conservation;
- (b) encourage the use of alternative energy sources, including earth energy; and
- (c) facilitate research and development of alternative energy services and innovative energy technologies.

The Act requires that the Fund be established based on a percentage of gross revenue from the sale of electricity outside Manitoba in the 2006-07 fiscal year. After consultation with the Minister responsible for Manitoba Hydro, the Fund has been established in the amount of \$35 million which is equivalent to 5.9% of gross extraprovincial revenues in 2006-07.

For accounting purposes, the Fund was established as a Deferred Charge (Note 8) with an offsetting Deferred Credit (Note 12). Expenditures of \$1 million during the year were charged to operations with the deferred accounts reduced accordingly.

NOTE 18 ADVANCES TO TASKINIGAHP POWER CORPORATION

Taskinigahp Power Corporation (TPC) has a non-controlling interest in the Wuskwatim Generating Station which is currently under construction and projected to be placed in-service in 2012.

TPC is owned beneficially by Nisichawayasihk Cree Nation (NCN). Both Manitoba Hydro and NCN are parties to the Wuskwatim Power Limited Partnership (WPLP) which was formed to carry on the business of developing, owning and operating the generating station.

In accordance with the partnership agreements, Manitoba Hydro will provide debt financing to TPC. At March 31, 2007 Manitoba Hydro has provided advances to TPC of \$14 million (2006 - \$0 million). The advances are repayable by TPC, with interest, subsequent to the in-service date of the Wuskwatim Generating Station. In addition to the advance, TPC contributed \$1 million (2006 - \$0 million) to the WPLP bringing their non-controlling interest to \$15 million (2006 - \$0 million).

NOTE 19 SEGMENTED INFORMATION

The Corporation operates primarily in two business segments: electricity and natural gas. Each segment has its own particular economic characteristics and differs in nature, production processes, and technology. The electricity segment encompasses the generation, transmission, and distribution of electricity. The gas segment represents natural gas supply and distribution activities through the operations of Centra Gas. The Corporate segment represents the costs to acquire Centra Gas and to integrate its operations into those of Manitoba Hydro. These costs are allocated to gas and electricity segments in accordance with the synergies and benefits derived by each of these segments as a result of the acquisition.

The following table contains information related to the operating results, assets, liabilities, and retained earnings by segment:

	Electricity		Gas		Corporate		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	<i>millions of dollars</i>							
Revenues (net of cost of gas sold)	1 632	1 828	129	120	-	-	1 761	1 948
Expenses								
Operating and administrative	332	322	54	53	-	-	386	375
Finance expense	467	468	22	18	17	17	506	503
Depreciation and amortization	312	301	18	19	2	2	332	322
Water rentals and assessments	112	131	-	-	-	-	112	131
Fuel and power purchased	226	125	-	-	-	-	226	125
Capital and other taxes	55	54	22	23	-	-	77	77
Corporate allocation	7	7	12	12	(19)	(19)	-	-
	1 511	1 408	128	125	-	-	1 639	1 533
Net income (loss)	121	420	1	(5)	-	-	122	415
Total assets	10 367	9 853	597	629	-	-	10 964	10 482
Total liabilities	8 981	8 588	576	609	-	-	9 557	9 197
Total retained earnings	1 386	1 265	21	20	-	-	1 407	1 285

NOTE 20 COMPARATIVE FIGURES

Where appropriate, comparative figures for 2006 have been reclassified in order to conform to the presentation adopted in 2007.

Financial Statistics

For the year ended March 31

2007 2006 2005 2004 2003 2002 2001 2000 1999 1998
millions of dollars

Revenues

Electrical:

Residential	410	387	386	368	354	314	320	300	300	299
General Service	614	597	553	550	521	472	461	437	448	440
Extraprovincial	592	827	554	351	463	588	480	376	326	297
Other Revenue	16	17	15	18	16	11	8	9	6	5

Gas:

Residential	245	238	244	235	247	225	240	137	---	---
Commercial/ Industrial	257	274	258	252	261	248	259	130	---	---
Transportation	4	3	5	4	4	4	2	1	---	---
Other Revenue	2	2	2	3	3	2	3	1	---	---
	2 140	2 345	2 017	1 781	1 869	1 864	1 773	1 391	1 080	1 041

Expenses

Operating and Administrative	386	375	363	346	326	298	285	269	223	213
Finance Expense	506	503	502	487	479	482	420	419	411	419
Depreciation and Amortization	332	322	311	296	281	260	249	227	198	191
Water Rentals	112	131	111	71	103	113	56	51	50	56
Fuel and Power Purchased	226	125	135	569	151	71	48	33	59	14
Capital and Other Taxes	77	77	75	73	66	61	61	58	39	37
Cost of Gas Sold	379	397	384	375	392	365	384	182	---	---
	2 018	1 930	1 881	2 217	1 798	1 650	1 503	1 239	980	930

Net Income

	122	415	136	(436)	71	214	270	152	100	111
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Assets

Property, Plant and Equipment	11 424	11 065	10 748	10 399	9 991	9 072	8 762	8 454	7 815	7 441
Less Accumulated Depreciation	3 924	3 657	3 447	3 241	3 042	2 834	2 609	2 407	2 217	2 054
Construction in Progress	915	602	475	378	356	388	275	188	176	221
Sinking Fund Investments	630	555	562	715	948	1 515	1 350	1 282	1 111	988
Current and Other Assets	1 919	1 917	1 614	1 652	1 981	2 264	2 188	1 175	981	1 021
	10 964	10 482	9 952	9 903	10 234	10 405	9 966	8 692	7 866	7 617

Liabilities and Retained Earnings

Long-Term Debt	6 822	7 051	7 048	7 114	6 925	7 123	6 968	6 611	5 883	5 548
Current and Other	2 400	1 849	1 738	1 781	1 875	1 699	1 629	988	1 050	1 242
Contributions in Aid of Construction	335	297	296	274	264	281	281	275	267	261
Retained Earnings	1 407	1 285	870	734	1 170	1 302	1 088	818	666	566
	10 964	10 482	9 952	9 903	10 234	10 405	9 966	8 692	7 866	7 617

Cash Flows

Operating Activities	443	710	433	(127)	432	554	334	374	366	297
Financing Activities	227	77	236	753	213	100	170	440	64	262
Investing Activities	788	677	666	650	629	638	521	856	507	532

Financial Indicators

Interest Coverage ¹	1.23	1.77	1.25	0.17	1.14	1.42	1.62	1.35	1.23	1.25
Debt Ratio ²	0.80	0.81	0.85	0.87	0.80	0.77	0.80	0.83	0.84	0.86
Capital Coverage ³	1.10	2.28	1.20	(0.32)	1.10	1.67	1.18	1.28	1.22	1.13

¹ Interest Coverage represents net income plus interest on debt divided by interest on debt.

² Debt Ratio represents debt (long-term debt plus notes payable minus temporary investments) divided by debt plus retained earnings plus contributions in aid of construction.

³ Capital Coverage represents internally generated funds divided by capital construction expenditures.

Operating Statistics

For the year ended March 31

Manitoba

System Capability

Capability (000 kW)	5 461	5 469	5 470	5 471	5 464	5 230	5 210	5 116	5 137	5 137
Manitoba Firm Peak Demand (000 kW)	4 173	4 054	4 169	3 959	3 916	3 760	3 637	3 524	3 559	3 490
Percent Change	2.9	(2.8)	5.3	1.1	4.1	3.4	3.2	(1.0)	2.0	2.4

System Supply

Total Energy Supplied (000 000 kWh)

Generation	32 132	37 620	31 543	19 338	29 167	32 633	32 687	30 146	30 043	34 032
Isolated Systems	12	12	11	11	11	10	10	9	17	28
	32 144	37 632	31 554	19 349	29 178	32 643	32 697	30 155	30 060	34 060

Load at Generation (000 000 kWh)

Integrated System	23 333	22 655	22 452	21 907	21 965	20 519	20 123	19 101	19 398	19 095
Isolated System	12	12	11	11	11	10	10	9	17	28
	23 345	22 667	22 463	21 918	21 976	20 529	20 133	19 110	19 415	19 123
Percent Change	3.0	0.9	2.5	(0.3)	7.0	2.0	5.4	(1.6)	1.5	(0.8)

System Demand

Energy Delivered (000 000 kWh)

Residential	6 539	6 266	6 370	6 266	6 135	5 206	5 282	4 928	4 947	4 937
General Service	14 016	13 710	13 411	13 057	12 818	11 752	11 416	10 892	11 384	11 012
Manitoba	20 555	19 976	19 781	19 323	18 953	16 958	16 698	15 820	16 331	15 949

Net Metered Interchange

(+Exports -Imports)

	8 217	13 706	8 213	(2 578)	6 378	10 911	11 247	9 906	9 469	13 399
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Gas Deliveries (millions of cubic metres)

Residential	620	579	681	653	714	645	699	626	-	-
Commercial/ Industrial	844	803	917	893	980	899	974	887	-	-
Transportation	592	598	559	577	640	502	501	530	-	-
	2 056	1 980	2 157	2 123	2 334	2 046	2 174	2 043	-	-

Number of Customers

Electric:

Residential	450 823	446 370	442 840	438 953	435 507	355 473	353 297	352 618	349 710	345 847
General Service	66 038	63 421	62 826	62 697	62 218	50 062	49 743	49 405	49 153	48 481
	516 861	509 791	505 666	501 650	497 725	405 535	403 040	402 023	398 863	394 328

Gas:

Residential	235 016	233 190	231 366	229 194	227 071	225 258	224 020	222 110	-	-
Commercial/ Industrial	24 553	24 627	24 559	24 437	24 202	24 093	24 054	23 651	-	-
	259 569	257 817	255 925	253 631	251 273	249 351	248 074	245 761	-	-

Number of Employees

Regular	4 406	4 409	4 386	4 389	4 399	3 862	3 904	3 806	3 277	3 113
Construction	1 161	1 154	1 098	1 006	966	899	797	866	836	868
	5 567	5 563	5 484	5 395	5 365	4 761	4 701	4 672	4 113	3 981



SOURCE OF ELECTRICAL ENERGY GENERATED AND IMPORTED

For the year ended March 31, 2007

Nelson River	77.27%	Saskatchewan River	6.53%
Billion kWh generated	26.3	Billion kWh generated	2.2
Limestone	25.43%	Grand Rapids	6.53%
Kettle	24.04%		
Long Spruce	20.06%	Laurie River	0.15%
Kelsey	4.87%	Laurie River #1	0.06%
Jenpeg	2.88%	Laurie River #2	0.09%
Winnipeg River	8.84%	Thermal & Imports	1.53%
Billion kWh generated	3.0	<i>Thermal</i>	
Seven Sisters	2.33%	Billion kWh generated	0.5
Great Falls	2.01%	Brandon	1.45%
Pine Falls	1.37%	Selkirk	0.08%
Pointe du Bois	1.23%		
Slave Falls	1.04%	<i>Imports (Scheduled)</i>	5.68%
McArthur	0.86%	Billion kWh imported	1.9
		Imports	5.68%

GENERATING STATIONS AND CAPABILITIES

For the year ended March 31, 2007

Interconnected Capabilities

Station	Location	Number of Units	Net Capability (MW)
<i>Hydraulic</i>			
Great Falls	Winnipeg River	6	132
Seven Sisters	Winnipeg River	6	165
Pine Falls	Winnipeg River	6	89
McArthur	Winnipeg River	8	55
Pointe du Bois	Winnipeg River	16	74
Slave Falls	Winnipeg River	8	67
Grand Rapids	Saskatchewan River	4	479
Kelsey	Nelson River	7	223
Kettle	Nelson River	12	1 220
Jenpeg	Nelson River	6	128
Long Spruce	Nelson River	10	1 010
Limestone	Nelson River	10	1 340
Laurie River (2)	Laurie River	3	10
<i>Thermal</i>			
Brandon		3	343
Selkirk		2	126

Isolated Capabilities

<i>Diesel</i>			
Brochet			3
Lac Brochet			2
Shamattawa			3
Tadoule Lake			1

Total Generating Capabilities **5 470**

Manitoba Hydro-Electric Board



Phil Dorion, David Friesen, Phillip Jessup, Victor Schroeder, Gerard Jennissen, Leslie Turnbull, Garry Leach, Ken Hildahl, Ken Paupanekis, Michael Spence, William Fraser

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VICTOR H. SCHROEDER, QC

Associate

Levene Tadman Gutkin Golub LLP

Barristers and Solicitors

Winnipeg, Manitoba

PHIL DORION

President and CEO

Asen eskak

Opaskwayak, Manitoba

DAVID FRIESEN

Chair and CEO

Friesens Corporation

Altona, Manitoba

KEN HILDAHL

Vice President

Sales and Marketing

Manitoba Blue Cross

Winnipeg, Manitoba

GERARD JENNISSEN

Member of the Legislative Assembly for Flin Flon

Province of Manitoba

PHILLIP JESSUP

Executive Director

The Toronto Atmospheric Fund

Toronto, Ontario

KEN PAUPANEKIS

Norway House, Manitoba

GARRY LEACH

Chair and CEO

Belcher Island Smelting and Refining Corporation

Winnipeg, Manitoba

MICHAEL SPENCE

Mayor of Churchill and

Member of York Factory First Nation

LESLIE TURNBULL

Partner

Viewpoints Research Ltd.

Winnipeg, Manitoba

WILLIAM C. FRASER, FCA

Former CEO, Manitoba Telecom Services

Manitoba Hydro Senior Officers



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Customer Service & Marketing

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Transmission & Distribution

KEN M. TENNENHOUSE, LL.B
General Counsel and
Corporate Secretary

VINCE A. WARDEN, CMA, FCMA
Vice-President
Finance & Administration and
Chief Financial Officer

UTILITY TERMS

Demand: The size of any load, expressed in kilowatts (kW), averaged over a specified period of time.

Distribution system: The wood poles, conductors, and transformers that deliver electricity to customers. The distribution system transforms high voltages to lower, more usable levels. Electricity is distributed at 120/240 volts (V) for most residential customers and 120 to 600 V for the majority of industrial and commercial customers.

Energy: The ability to do work. Electrical utilities sell electrical energy to their customers who, in turn, convert this energy into a desirable form – such as work, heat, light, or sound. Electrical energy is measured in kilowatt hours (kWh).

Generator: A machine that converts mechanical energy – such as a rotating turbine driven by water, steam, or wind – into electrical energy.

Natural gas: A fossil fuel made from hydrocarbons stored millions of years ago when plants and other materials were buried in the earth's crust. Composed mostly of methane – a colourless and non-toxic substance – natural gas creates virtually no unburned particles or smoke to pollute the atmosphere. The products of combustion are chiefly carbon dioxide and water – the same products exhaled by the human body.

NCN: The Nisichawayasihk Cree Nation from northern Manitoba, one of the five native communities identified in the Northern Flood Agreement.

PDA: Project Development Agreement between the Nisichawayasihk Cree Nation and Manitoba Hydro for the Wuskwatim Generating Station.

PUB: The Public Utilities Board. The provincial government's regulatory body through which all of Manitoba Hydro's electricity and natural gas rate applications must be approved before rate increases or decreases can become corporate policy.

Peak load: Record of maximum amount of electricity for the fiscal year measured at a specific moment in time.

Power grid: A number of interconnecting electrical power systems linking together electrical utilities and covering a large geographical area.

Transmission system: The towers and conductors that transport electricity in bulk form from a source of supply to local areas for distribution or to the power systems of out-of-province electrical utilities. Electricity is usually transported via transmission lines in amounts ranging from 66 kV to 500 kV.

ACCOUNTING TERMS

Blended Forward Interest Rate Swap: An agreement between two parties to exchange predetermined fixed and floating interest rates on a specified notional amount of a principal debt or investment for a specified term. The fixed interest rate is a bond yield calculation based on the fixed interest rate of the existing debt or investment and the fixed interest rate of the forward interest rate swap.

Exposure Management Program: U.S. dollar hedging program used by the Corporation to offset U.S. dollar cash flows from debt, investments, and net exports to eliminate the impact of fluctuations in the U.S. dollar exchange rate.

Financial instrument: Bonds, provincial advances, short-term promissory notes, temporary and long-term investments, and swap option and foreign exchange contracts.

Foreign exchange contract: An agreement to exchange a predetermined amount of currency on a specified future date at a specified price.

Forward Interest Rate Swap: An agreement between two parties to exchange predetermined fixed and floating interest rates on a specified notional amount of a principal debt or investment for a specified term, beginning at a future date.

Retained earnings: Net accumulated earnings that a business has not distributed to shareholders.

Sinking fund: A fund of cash and securities set up to provide for the orderly retirement of a debt.

Swap: An agreement between two parties to exchange cash flows at predetermined rates on specified notional amounts at specified future dates.

Yield: The average return of a debt or investment using a bond yield convention which recognizes the future interest payments, capital gains or losses, commissions, discounts, and premiums.

Weighted Average Yield Rate: The average return of debt or investment using the bond yield convention, weighted by the remaining term to maturity.

UNITS OF MEASURE

BTU: British Thermal Unit. The amount of energy required to raise the temperature of one pound of water one degree Fahrenheit, equaling roughly 1 000 joules.

Gigajoule: A measure of energy for natural gas equaling one billion joules. One gigajoule of energy is equivalent to that provided by approximately 278 kWh of electricity or 30 litres of gasoline.

Gigawatt (GW): The unit of electrical power equivalent to one billion watts or one million kW.

Joule: A measure of energy for natural gas.

Kilovolt (kV): The unit of electrical pressure, or force, equivalent to 1 000 volts (V).

Kilowatt hour (kWh): The basic unit of electrical energy by which electricity is measured. For example, 10-100 W light bulbs switched on for one hour equals one kilowatt hour (1 000 W for one hour).

Megawatt (MW): The unit of electrical power equivalent to one million watts, or 1 000 kilowatts (kW).

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